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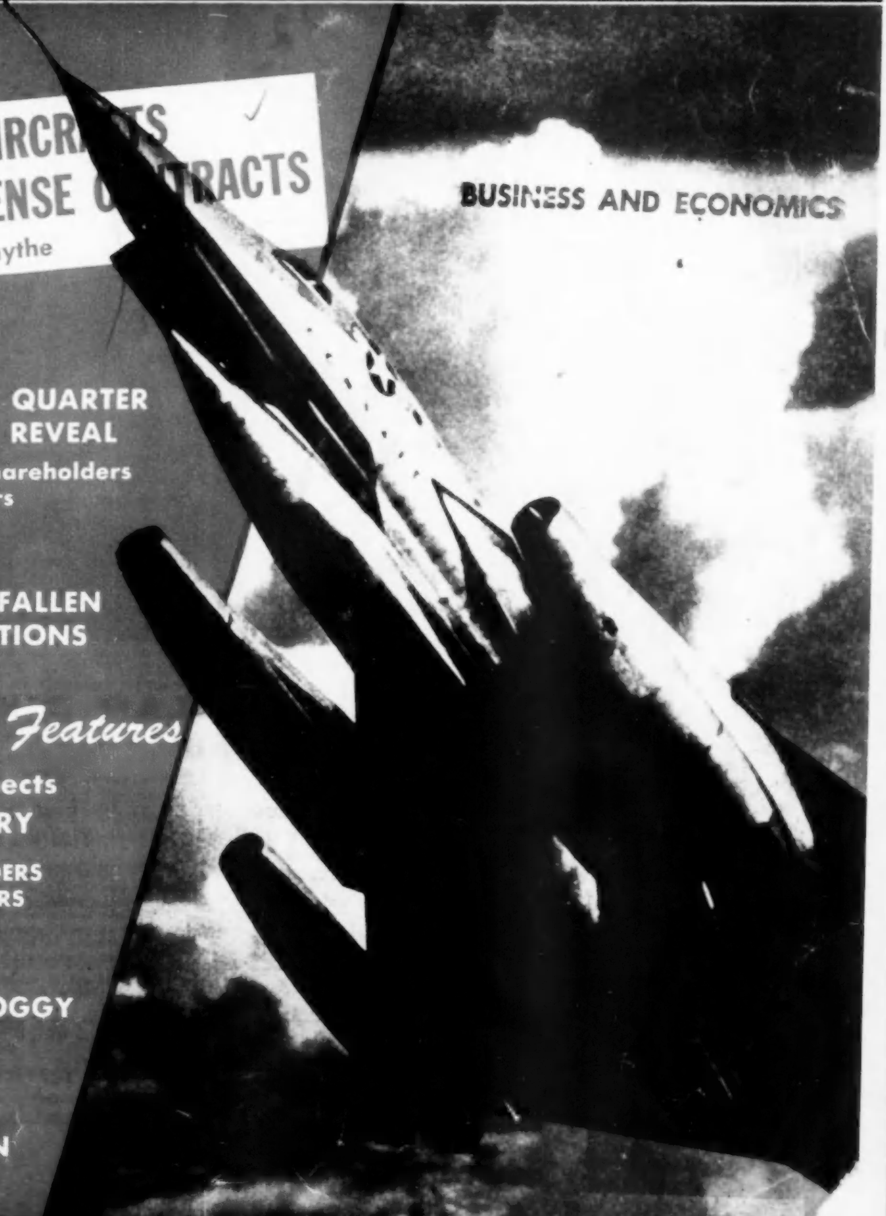
The MAGAZINE of WALL STREET

and BUSINESS ANALYST

MAY 24, 1958 — 85 CENTS



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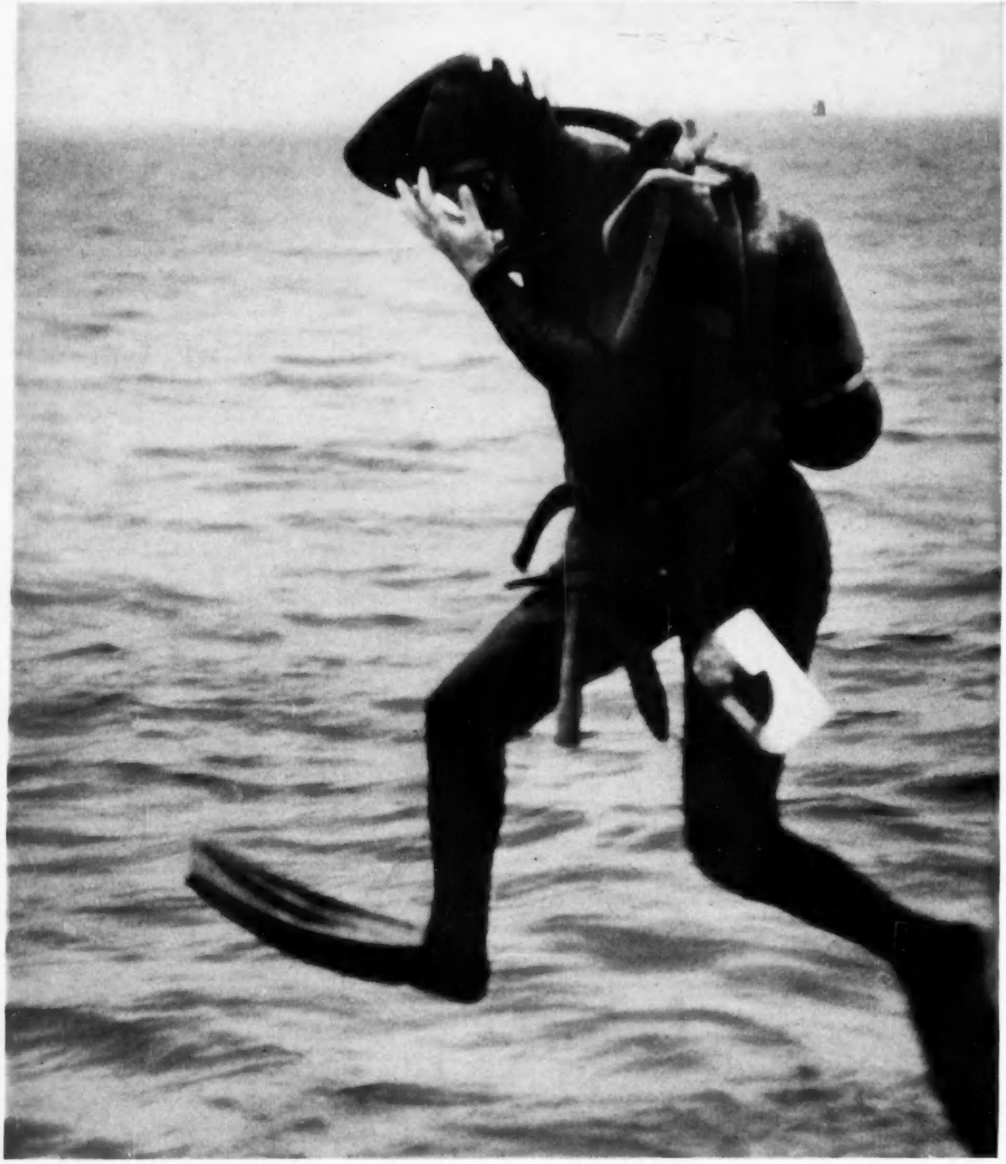

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THIS YEAR

THE BELL SYSTEM IS PUTTING MORE THAN TWO BILLION DOLLARS IN NEW FACILITIES

We are doing this because we are confident that growing America will need, buy, and use more telephone service tomorrow than today.

We are doing it to improve our service further and make the telephone even more convenient. This we are sure will stimulate more use.

These 1958 expenditures are higher than the average in the post-war years—and close to the highest in any year.

A stimulus to the economy of the whole country

Our goal, as I have said, is to serve you better than ever. In addition, the way this money flows out to other businesses stimulates the economy of the whole country.

Wherever there are new telephone buildings going up, or jobs of maintenance, there is work for local builders, carpenters, plumbers, electricians, painters and many others.

Our spending means business too for thousands of other companies and workers in those companies. Last year the Bell System through Western Electric, its manufacturing and purchasing unit, bought from 33,000 firms throughout the country. Nearly nine out of ten of these are small businesses, each with fewer than 500 employees. This year again we expect to buy about a billion dollars worth of goods and services from other industries.

To go ahead with our 1958 construction, we in the Bell System have raised nearly a billion dollars of new capital in the last six months. Obviously, investors will continue to entrust their savings to us only if they can expect reasonable earnings on the money they risk.

Good service at reasonable profit keeps the road to progress open

So telephone progress—and the advantage to all that comes from our pushing ahead—begins with our faith that Americans want good and improving service at prices which allow a fair profit.

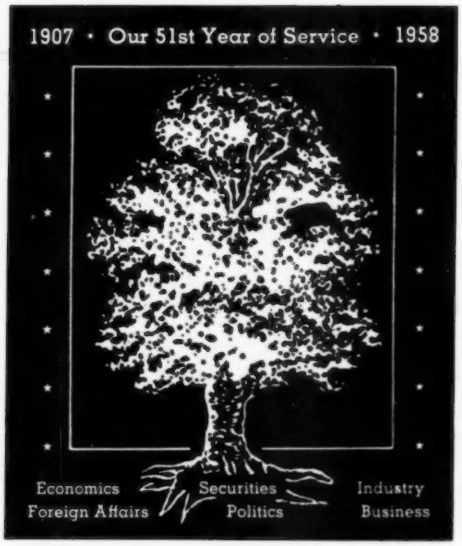
This is the way of life which in our country has stimulated invention, nourished enterprise, created jobs, raised living standards, and built our national strength. As long as we live by this principle, the future of the telephone is almost limitless in new possibilities for service to you.

FR Kappel

FREDERICK R. KAPPEL, PRESIDENT
AMERICAN TELEPHONE AND TELEGRAPH COMPANY

THE MAGAZINE OF WALL STREET

C. G. WYCKOFF, *Editor-Publisher*



The Trend of Events

HITTING ON ALL CYLINDERS . . . The news from Paris—from Peiping—Indonesia—Lebanon—South America—and the timing of Sputnik III—are clearly related to steps in Russia's campaign to dangerously undermine our position around the world in connection with her campaign to destroy the United States—In Khrushchev's words "to bury the West".

To what extent the Algerian rebellion was part of the Russian scheme to keep the French Government in the state of turmoil that would end in a dictatorship under De Gaulle remains to be clarified.

But we do know that Russia was as well aware as we were of De Gaulle's opposition to NATO, so that in lending a hand towards bringing him to the head of a dictatorship in France, the Kremlin undoubtedly believed that it could realize its great dream of sabotaging NATO, the end result of which would be to break up the Mutual Security Pact between the United States and Western Europe—bringing about the destruction of our bases there—and the negation of the billions of dollars we have spent to build up the joint defense of the free nations.

Again, in the warning to the United States by Peiping in behalf of Sukarno's government and their accusation that Chiang Kai-shek is aiding the rebel forces, we see a grandiose scheme designed to lay the groundwork that would justify a Red China attack on the nationalist government in Formosa as a partner of the Indonesian rebels.

The demand that we desert South Korea is a step in the general direction towards leaving every foothold we have on the Asiatic continent and in the Pacific. This seems to be an insidious continuation of the long-term Communist plan to cross the Behring Straits into Alaska, enabling the warlords to pour vast hordes into the United States. As a matter of fact, by hook or crook, Russia schemes to get the better of us—even by having their controlled press declare that the United States should return Alaska because the price paid was really a "gyp".

The Communists are busy scheming everywhere. A glance at the map of the Middle-East will show why Lebanon is being attacked and point clearly to the fact that Russia's hand is manipulating the scheme to build a solid Arab bloc. This would give Nasser enough power to help him acquire the oil revenues from the independent Arab states that have been withholding their agreement to join him in the United Arab Republic, with the end result of the establishment of a new Communistic Arab entity from the Pacific to the Atlantic.

And paradoxical as it may seem, if Russia succeeds in her schemes, it will be because the Western World, believing that an atomic war would wipe out civilization as we know it, would do almost anything to keep the peace.

We call the attention of the reader to our Trend Forecaster, which appears as a regular feature of the Business Analyst. This department presents a valuable market analysis of importance to investors and business men. To keep abreast of the forces that may shape tomorrow's markets, don't miss this regular feature.

BUSINESS, FINANCIAL *and* INVESTMENT COUNSELLORS::1907—*"Our 51st Year of Service"*—1958

As I See It!

By JOHN H. LIND

THE TRUTH BACK OF ATTACK ON NIXON

TO say that Vice President Nixon's "good will" tour to Latin America did not turn out according to plan may well be the understatement of the year. On the other hand, nothing could be more wrong than to dismiss the trip as a failure and wish it had not taken place. On a hemispheric basis the shock which all North Americans and many Latin Americans experienced at the totally unexpected treatment meted out to our Vice President may well have an effect similar to that Sputnik had on the international scene last fall. It may—indeed, we fervently hope it will—cause a sober reappraisal of our Latin American policy. That such a reappraisal is called for, has long been known in informed circles. But, given the normal human desire—particularly in bureaucratic circles – to leave well enough alone, it may have needed the egg pelting, spitting and window smashing in Lima and Caracas to shake the responsible people out of their normal state of complacency.

Meanwhile, we have learned a number of very important facts from Mr. Nixon's trip. Not the least of these is the evidence that Dick Nixon himself is a very courageous man who knows how to handle himself under situations of extreme stress. For security reasons, most Americans in exalted positions are relatively isolated from the people at large when traveling abroad. Certainly, in Lima, Mr. Nixon, too, could have limited his contacts to selected friendly audiences and shunned the hostile elements at San Marco University. The fact that he was willing to meet them unprotected on their own grounds and challenge them to a public debate of their complaints against the United States is quite remarkable.

Communist Activities in Western Hemisphere

I hope the people in Europe and Asia will compare our reaction with the ruthlessness with which Krushchev suppressed all signs of hostility last month in Hungary when he toured that unfortunate country, barking at sullenly antagonistic audiences for not showing enough enthusiasm for the Soviet Union.

Probably the most important factor to come out of the Nixon trip is the realization that Communism is a significant force in the western hemisphere. To those familiar with Latin Amercan affairs this is nothing new. The Magazine of Wall Street has frequently called attention to it. In a special article in the March 15th issue we pointed out that "our influence (in Latin America) is doubtlessly waning while that of the Communist world is gaining at an uncomfortable pace." The correctness of this appraisal has now been dramatically confirmed, for all the world to see. This is very important. Most Americans are wont to think of Communism as something that plagues only the eastern hemisphere. It is to be hoped that in the light of what has just happened this opinion will now be reexamined. Latin American government leaders, who seemed to have been equally surprised by the Communist show of strength, are already beginning to do something about it. A decree curtailing Communist activities has just been issued in Peru and a close scrutiny of Communism in Venezuela has been announced by the provisional president, Admiral Larrazabal, who declared openly that "we found rot in our system and we must now get rid of it".

Is Latin America Expecting Too Much of U.S.?

But since Communism was not alone responsible for the anti-U.S. outbursts—though it certainly provided the spark to set them off—we must ask ourselves what is really wrong with U.S.-Latin American relations. Both in Washington and in South American capitals the criticism is generally restricted to what *this* country should or should not have done. *But good-neighbor policy is a two-way street. To put all the blame on the United States merely because it is richer than any Latin American country* is not going to help matters very much.

Take the point of Latin American capital requirements. We have been severely criticised for not investing enough money in that part of the world. Yet, *the Export-Import Bank has in the 25 years of its existence lent $1.6 billion to Latin America, far more than it has given to any other area. Private U.S. investments have been even larger. However, potential private investors have frequently been discouraged by Latin America's chauvinistic attitude towards foreign capital.* Nationalization and harassment of private foreign enterprises have taken place in many countries south of our border.

– Uruguay, for instance, is currently in the process of taking over a large American-owned meat packing plant.
– Argentina, Brazil and Chile are not permitting private foreign oil companies to develop their countries' oil potentials, even though none of them has the means to do the job itself.
– Foreign-owned public utilities in many Latin American countries are held to a ridiculously low profit margin and, together with oil, are the favorite targets of all political rabble rousers.

Billions of additional dollars would flow into Latin America if these obstacles to foreign investment could be removed. But this will not happen until Latin Americans begin to understand that American businessmen can not be browbeaten into investing abroad but can only be induced to do so by a favorable foreign investment climate.

Further Unreasonable Criticism

Another clamor during the Nixon trip arose out of our reduced commodity purchases from Latin America. Of course, no producer likes to see his sales reduced. But the reason why we are currently buying less from Latin America is not a sinister political one or a reflection of our disinterest in Latin America. The United States happens to be in the throes of a recession which we like no more than our foreign suppliers. If business were better we would be only too glad to place more orders, at home or abroad. In the meantime, it makes little sense for our foreign suppliers to insult our representatives. *Furthermore, the prevailing depressed state of world commodity prices is due not only to the U.S. recession but also to reduced imports into Western Europe and the sterling area.*

Of course, Latin Americans are rightly concerned over the possibility that recession-motivated protective tariff rates in the United States might compound the present difficulties and cause permanent harm to America's foreign suppliers. So far, this has not taken place, mainly because President Eisenhower and Vice President Nixon have fought a stubborn battle against the protectionist elements in Congress, to preserve America's liberal trade policy. The fact that the Latin American rioters who screamed against U.S. tariff policy, concentrating their attack on the personality of Mr. Nixon, shows clearly that they either knew nothing or cared less about the real facts at issue.

Vice President Nixon is met by President Eisenhower at National Airport.

Threats of Turning to Russia

But rioting mobs were not the only ones who made things difficult for Mr. Nixon. Government officials in several of the countries visited, implied privately to the Vice President that if the United States market fell off they would have no choice but to intensify their trade with the Soviet bloc. This was clearly intended to scare us into taking immediate action, mainly by granting new loans, to stave off such a possibility.

We do not know what Mr. Nixon's answer was to this subtle form of blackmail. But we hope he said something like this: "Go ahead, trade with the Communists. And if you come out on top in any of the deals, more power to you." Up to now, Latin America has not come out on top in its business dealings with the Communist world. Argentina, for instance, shipped large quantities of meat and other agricultural commodities to Russia under a one-year trade agreement. But it had to wait more than two years before the Soviet Union had completed an equivalent value of return shipments. In effect this meant that exchange-short and capital-short Argentina had to extend considerable short-term and medium-term credits to the Soviet Union.

Moreover, the Soviet Union is in a position to shift its trade policy at will which is just another political instrument of the Kremlin and not subject to normal commercial principles. It may well decide that it now is wise to make Soviet-Latin American trade more lucrative for its trading partner. If this should be the case, we could not, and should not, do anything to stop it. It probably would not last long, anyway, since *in the long-run the economies of the Soviet bloc and Latin America do not complement each other and have, therefore, no basis on which to establish permanent high-level trade relations, such as exist between the United States and Latin America.*

In the meantime, Bolivia provides an object lesson of the "benefits" of Soviet foreign trade policy. Bolivia's leaders have told Mr. Nixon that the economic situation is so desperate that the country might go communist within six months if no outside help is forthcoming. Yet, its major trouble stems from the fact that the price of its chief export commodity, tin, is rapidly (*Please turn to page* 291)

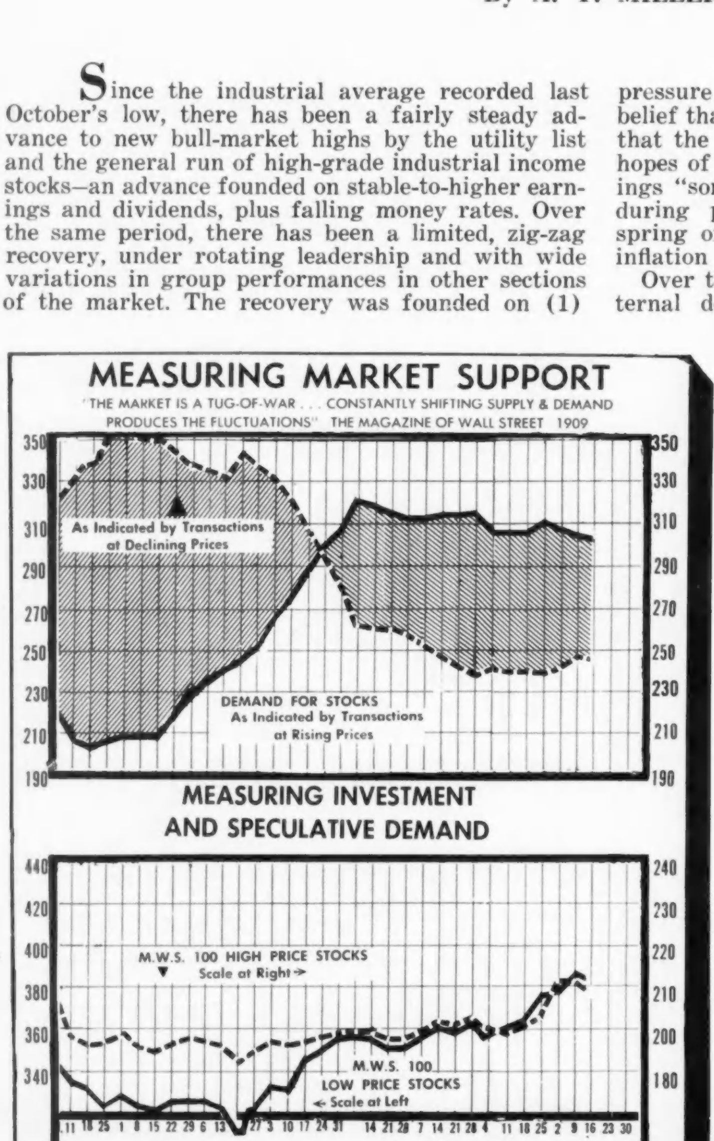
Market Growing More Speculative

Sound basis for a sustained market rise remains absent. Earnings will continue sub-normal in many industries for some time to come. Most cyclical and growth stocks appear amply priced or over-priced. Most income stocks are no longer cheap. Some speculative excess is evident. The immediate technical position has deteriorated. Our policy is unchanged.

By A. T. MILLER

Since the industrial average recorded last October's low, there has been a fairly steady advance to new bull-market highs by the utility list and the general run of high-grade industrial income stocks—an advance founded on stable-to-higher earnings and dividends, plus falling money rates. Over the same period, there has been a limited, zig-zag recovery, under rotating leadership and with wide variations in group performances in other sections of the market. The recovery was founded on (1) pressure of plentiful cash seeking employment, (2) belief that the business recession is near bottom and that the averages have put their lows behind, (3) hopes of an upturn in business and corporate earnings "somewhere around the corner", and, (4) as during previous temporary upswings since the spring of 1956, another resurgence of "long-term inflation talk."

Over this period, sentiment and the market's internal demand-supply balance have shifted frequently. Thus, between October 22 and May 6, there were five upswings in the industrial average, and four sell-offs of some proportions—a performance providing more opportunity for short-term traders willing to risk "playing the market" than for investors concerned with fundamental stock values. The five upswings footed up to a total of roughly 119 points, the sell-offs to about 75 points—for a net gain of some 44 points, or about 11.7%, out of the average's aggregate up and down "mileage" of nearly 194 points on the nine swings. If such behavior, and the extent to which the market has ignored poor earnings and sobering foreign developments have puzzled you, you have plenty of company.

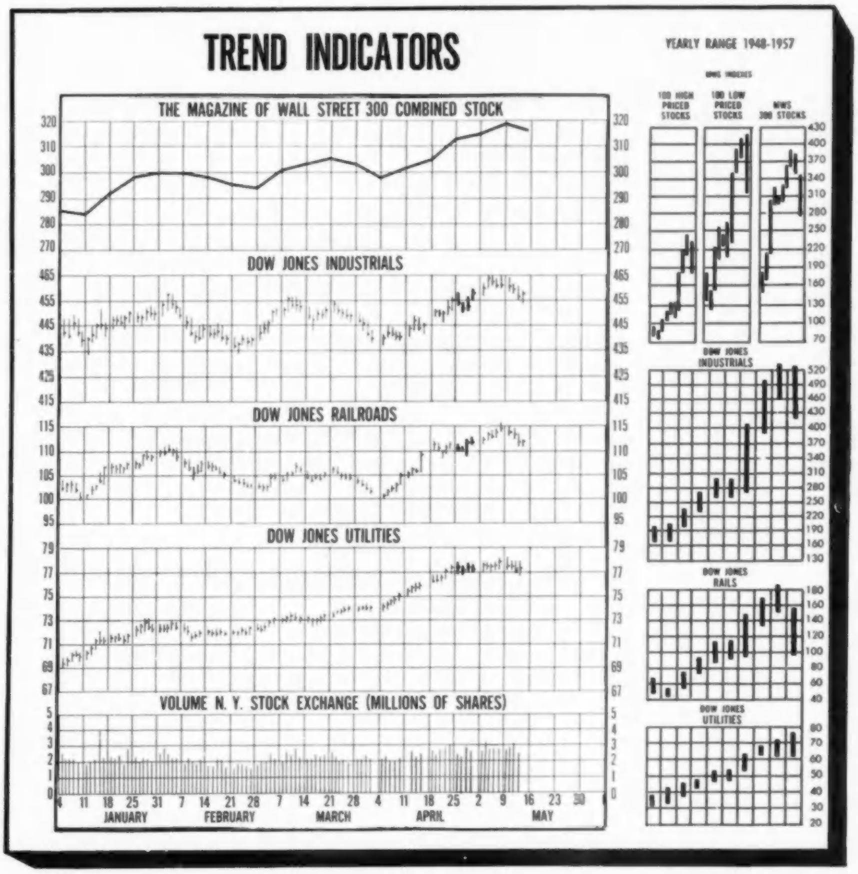


Where Do We Go Now?

The most recent surge in the average, one of the longer in the series, ran from an April 7 reaction low to a May 6 recovery high for a total of 23.58 points, or about 5.3%. Yet, as measured against the rally level reached as far back as February 4, it extended the recovery phase by little over 1%, and was followed by a three-day retreat of 8.19 points. That amounted to over a one-third cancellation. A one-session rebound last Thursday gave way to mild easing, and the week ended on a hesitant note as the French crisis worsened and was not clarified by De Gaulle's

statement that he was willing to assume the reins of office. Whether more retreat or more recovery is in the offing may be determind quickly.

Meanwhile, one has to note a significant change in the character of the market during recent weeks. As indicated by the performance of, and trading volume in, individual stocks, we are getting progressively less investment leadership, increasing speculative tendencies. The rise in utilities and income stocks generally has been flattening out. That is understandable, since so many have reached all-time highs at which yields have been considerably pared. And it is understandable that investors should feel impelled to trade down to some extent into selected medium-grade stocks. But the shift has gone much further than that.



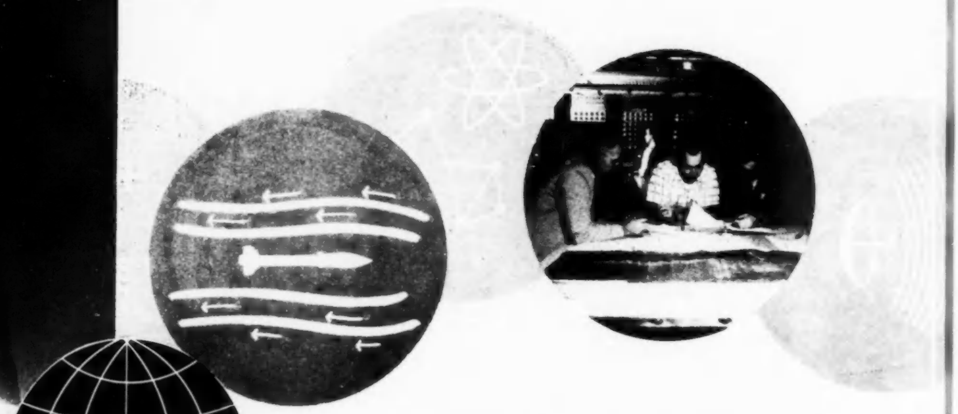
It has extended to the rails, steels and other cyclical stocks in which earnings are especially depressed, and for which the timing of any considerable betterment in profits remains more than a little conjectural. What is more disturbing, however, there has been an almost incredible wave, especially during the last fortnight, of speculation in low-priced stocks which no institutional fund manager or sensible individual investor would touch. In some recent sessions, half or more of the 15 most actively-traded issues were stocks priced under $10 a share. Here are some samples: Studebaker-Packard, Benguet Mining, Electrical & Musical Industries, Natomas, Servel, Continental Motors, Avco Mfg. and Hupp Corp. Moreover, there has been a rising trend in the margin position for some weeks. It is difficult to escape the conclusion that there has been considerable deterioration in the market's technical position; and that, unless there is a substantial near-term sell-off, the logical alternatives would seem to be either (1) a less-than-average summer seasonal rise within the July-August period; or (2) development of a still more vulnerable speculative position, which would merely defer and enlarge the penalty to be paid for excess.

Where has the buying been coming from? Answer: mutual funds, other institutional funds, large and small individual investors, professional and non-professional traders. But, since every share of stock bought for one account is sold for another account, the other side of the question is: where has the selling come from? Answer: the same general sources. Difference of opinion makes the market. Thus, it not infrequently happens that one mutual fund reduces or eliminates its holdings in a given stock, while another is a buyer of the same stock. Only time will tell whether the buyer or seller was right at the price paid or received.

It is worth noting that there has been more recent selling than buying by "insiders" who presumably know more about prospects for their companies than can the general public or the institutional fund managers. A few of numerous examples are Bridgeport Brass, CIT Financial, duPont, International Harvester, Marine Midland, National Lead, U. S. Gypsum, Sunbeam Corp., Sylvania Electric, and U. S. Steel.

The Business Outlook

Perhaps the recession is near the saucering-out stage. Some mild April improvement is reported for housing starts and total retail store sales. The April decline in wage-salary income was well under the first-quarter average. There has been a slight recent betterment in steel operations. Total government spending (Federal, State and local) is, of course, pointing upward. There has been some slowing in inventory liquidation and in the rate of shrinkage in manufacturers' new orders. But there are balancing factors. The progressive shrinkage in outlays for new plant and equipment is continuing. The automobile industry's outlook remains drab. So does that for home appliances. Copper inventories in producers' hands are the highest in many years, despite production cutbacks. *(Please turn to page 291)*



REAPPRAISING AIRCRAFTS UNDER UNCERTAIN DEFENSE CONTRACTS

BY ALLEN M. SMYTHE

THE science of aeronautics which produced the military aircraft and guided missiles of today is being supplanted by the science of astronautics which is producing the ballistic missiles and spaceships of tomorrow. The impetus for both came from the need for national security and with the aid of generous military appropriations.

With the dynamic and rapid change as this nation presses forward into the space age, there are in its wake economic problems that are frustrating to the military contractor, bewildering to Congress and frightening to the taxpayer.

As the Administration tries desperately to function within the new statutory debt limit of $280 billion, the Defense Department is compelled to finance the new fantastic and expensive weapons of the future by reducing military personnel or conventional weapons. Because of world conditions, reducing the Armed Services appears to be out of the question at the moment.

The mission of the Defense Department is a challenging one. It must maintain the air supremacy which has been the primary deterrent to war and be prepared to deny military dominance of space by others as rapidly as technology will permit.

To fulfill its mission and keep within budgetary limits the Pentagon has programmed expenditures for military hardware at $14 billion for the next several years. Construction costs and research will each require an extra $2 billion.

Of the military hardware expenditures approximately $11 billion will go for aircraft and missiles. It is within this limit that the shifting of funds from aircraft to missiles is becoming so pronounced and will be of such vital concern to military contractors.

The rate of defense obligations and orders for the last six months has been accelerated after the expenditure limitations of last summer. This acceleration has been given some additional momentum by the

fiscal year 1958 Supplemental Appropriation Bill.

The $1.4 billion of extra funds in this urgently requested bill gives an indication of the trend in military procurement. It provided $434 million for 39 more B-52 heavy bombers and 26 of their aerial refuelers, the KC-135. This amount, Secretary Neil H. McElroy said, would keep the Boeing Wichita and Seattle plants going through fiscal 1960 "during the period of development of strategic missiles."

Additional sums were given to speed development of the Titan, Nike-Zeus, Polaris and the Hound Dog missiles. Funds were allowed to speed the Strategic Air Command's alert and dispersal facilities. Provision was made to initiate in the Far North a radar system, permitted by technical breakthroughs of last summer, that will detect any oncoming ballistic missiles hundreds of miles in space.

The prime contractors of the four missiles selected for extra funds are Martin, Douglas, Lockheed and North American, all large airframe contractors. They will make the "shell" and supervise the final testing. However, most of the funds will go to associate contractors who will manufacture the propulsion systems, the guidance systems, and the nose cones. Other companies will be awarded the ground handling equipment either as associate or subcontractors.

Drastic Impact of Changes on Contractor

Over the past few years military aircraft expenditures were around $8 billion annually. They have dropped one-half billion dollars this year and will have a similar decrease next year. By 1961, after the B-52 heavy bombers program ends, the amount may be around $4 billion dollars. One quarter of these amounts covers the cost of aircraft turbojet engines.

The spending for missiles reached one-half billion dollars in fiscal year 1954. It more than doubled two years later. Fiscal year 1958 (ending next month) will record an expenditure of three billion dollars. By 1961 missiles and their ground handling equipment costs should exceed by about one billion dollars the expenditures for aircraft.

The impact of this trend on industry is severe in many ways. Long-run production programs are being drastically curtailed; short runs are the norm. Rapid technological changes are virtually obsoleting whole systems almost before they are built. Variations in the international climate may, and do, bring about program changes.

Another major result of this trend is the gradual shift in emphasis from the historical concept of primary contractor. Normally, the airframe company has been looked upon as the major manufacturer from design to flight testing. Radio, engines, and fire control were designed to "fit" the aircraft configuration.

Assistant Secretary Dudley C. Sharp, (Material) of the Air Force points out that "in the future, the primary role in the manufacture of missiles, especially the solid propellant type could well shift to the engine builder."

Ballistic missiles are the forerunner of spaceships and many of the scientific breakthroughs have come from engineers and scientists of firms who are subcontractors and component manufacturers. Mr. Sharpe adds, "It is equally possible that electronic manufacturers could become prime contractors for space vehicles, particularly the manned reconnaissance types."

It is interesting to note in a recent speech by Undersecretary Malcolm A. MacIntyre of the Air Force that "As progress is made into the space era, industries now considered as secondary sources of airpower hardware may become the primary manufacturers. In other words, industries now specializing in electronics and propulsion may become our prime contractors."

A high Navy procurement officer expressed his views in this manner: "There is not enough business now for all the airframe firms. They will have to merge or buy in smaller companies who already have some missile business. Electrical, radio, tire and chemical companies are pushing into the missile industry. They have the will, the scientific skill and the finances to adapt to this expanding industry and they are getting the business. Also those complacent old line jet engine firms may be supplanted by the more

Department of Defense
Expenditures By Major Budget Category
Fiscal Year 1959 with Four-Year Comparisons
(Millions of Dollars)

Military Functions	*Excludes Military Assistance*				
Budget Category	**FY 1959 Estimated**	**FY 1958 Estimated**	**FY 1957 Actual**	**FY 1956 Actual**	**FY 1955 Actual**
I. Military Personnel Costs	10,523	10,344	10,384	10,666	10,643
II. Operation and Maintenance	9,295	9,254	9,214	8,519	7,905
III. Major Procurement and Production	(14,077)	(14,153)	(13,649)	(12,182)	(12,997)
a. Aircraft	6,989	7,779	7,978	7,146	8,037
b. Missiles	3,444	2,955	2,095	1,168	718
c. Ships and Harbor Craft	1,332	1,143	897	895	1,009
d. Combat Vehicles	110	92	266	48	740
e. Support Vehicles	169	134	124	190	296
f. Artillery	14	13	24	28	17
g. Weapons	7	12	......	—165	—92
h. Ammunition	227	376	471	1,380	669
i. Electronics and Communications	904	838	881	770	636
j. Production Equipment and Facilities	378	500	462	440	631
k. Other Procurement and Production	502	311	451	282	335
IV. Military Construction	2,099	1,923	1,906	2,005	1,582
V. Reserve Components	1,148	1,181	1,054	854	717
VI. Research and Development	2,270	1,853	1,686	1,491	1,391
VII. Retired Pay and Other DOD Activities	958	949	849	688	654
VIII. Working Capital (Revolving) Funds	—240	—536	—414	—635	—501
Undistributed	205	......	111	—66	149
TOTAL	40,335	39,120	38,439	35,705	35,539

NOTE: Amounts will not add to totals due to rounding.

Statistical Data on Leading Aircraft Companies

		Earnings Per Share				Dividends Per Share				
		Year	Year	1st Quarter						
	Rating	1956	1957	1957	1958	1956	1957	Recent Price	Div. Yield	Price Range 1957-1958
Beech Aircraft	C1	$4.04	$4.09	$ .92	$1.10	$1.20	$1.20[9]	25	4.8%	31¼-15¼
Bell Aircraft	C2	2.21	1.62	.33	.29	1.25	1.00	17	5.8	24⅛-11¼
Boeing Airplane	B1	4.82	5.49	1.21	1.35	1.25[9]	1.00[9]	42	2.3	61⅛-29
Cessna Aircraft	C1	5.75	5.04	1.11	2.07	1.30	1.60[10]	34	4.7	43¾-19¼
Chance Vought Aircraft	B1	3.81	5.65	.93	2.12	1.60	1.60	41	3.9	49¼-20⅜
Curtiss-Wright	B3	5.64	5.07	1.30	.62	2.50	2.50[10]	23	10.8	47⅜-20⅝
Douglas Aircraft	B2	8.96	8.28	2.37	2.32	4.00	4.00	59	6.7	91 -50⅝
Fairchild Engine & Airp.	C3	.64	.17	.04	[d] .66	.25	......	11	.....	12¼- 6
General Dynamics	B2	4.14	4.80	1.05	1.01	1.60	2.00	57	3.5	68⅝-46¾
Grumman Airc. Eng.	C3	3.50	2.38	.41		2.00	1.75	21	8.3	34⅝-15¼
Lockheed Aircraft	B1	5.10	5.52	1.16	1.72	2.40	2.40[9]	46	5.2	57⅛-26
Martin Co.	B2	3.73	3.38	.69	.58	1.60	1.60[9]	32	5.0	47⅞-26½
McDonnell Aircraft	B1	4.55[1]	6.34[1]	4.07[2]	4.22[2]	.50[9]	[9]1.00[10]	27	3.7	44¾-18⅛
North American Aviation	B3	3.59[3]	4.23[3]	2.31[4]	1.61[4]	1.92	2.00	29	6.8	39¼-20⅛
Northrop Aircraft	C2	3.28[5]	3.62[5]	1.47[6]	1.86[6]	1.60	1.60	23	6.9	28⅛-15¾
Piper Aircraft	C3	2.88[3]	2.94[3]	1.80[4]	1.05[4]	.90	1.00[9]	17	5.8	21½-11¾
Republic Aviation	C3	5.01	4.15	1.21	.48	2.00	2.00	23	8.6	32¾-13
Rohr Aircraft	B2	3.49[5]	4.14[5]	1.91[6]	1.86[6]	1.40	1.40[9]	29	4.8	33¼-19¼
Ryan Aeronautical	B1	2.80	4.02	.66	1.14	.50	.40[9]	28	1.4	36¼-19
Solar Aircraft	C1	1.82[7]	.55[7]	[d] .002[8]	1.84[8]	1.00	1.00	17	5.8	20⅞-15½
Temco Aircraft Corp.	B1	1.35	1.50	.18	.36	.75	.75	13½	5.5	18⅜- 8⅝
United Aircraft	A3	5.88	7.97	1.69	1.78	3.00	3.00[9]	63	4.7	75¼-42

[d]—Deficit.
[1]—Year ended June 30.
[2]—9 months ended March 31, 1957 & 1958.
[3]—Year ended Sept. 30.
[4]—6 months ended Mar. 31, 1957 & 1958.
[5]—Year ended July 31.
[6]—6 months ended Jan. 31, 1957 & 1958.
[7]—Year ended April 30.
[8]—9 months ended Jan. 31, 1957 & 1958.
[9]—Plus stock.
[10]—Indicated 1957 rate.

RATINGS: A—Best grade. B—Good grade. C—Speculative. D—Unattractive. 1—Improved earnings trend. 2—Sustained earnings trend. 3—Lower earnings trend.

Beech Aircraft: This important producer of single- and twin-engine planes for civilian, foreign and miiltary users through its diversified operations should sustain fair profits over the near future despite recent reduction in plane procurement by the military services.

Bell Aircraft: A leading producer of military and commercial helicopters also active in missiles, electronic equipment, rocket motors and bomber assemblies. Diversification into non-aviation commercial fields indicates possible earnings improvement this year.

Boeing Airplane: Deliveries of the B-52 long range jet bomber and KC-135 should continue for some time ahead and the Bomarc guided missile is scheduled for quantity production. Initial deliveries of the model 707 commercial jet transport will be made late in 1958. Thus, earnings should be sustained at a satisfactory level this year.

Cessna Aircraft: Company manufactures private planes and also military training and liaison models. Does sub-contract work for other aircraft companies and has a stake in the helicopter field. Earnings this year may increase moderately.

Chance Vought Aircraft: A major supplier of Navy planes and is also engaged in the production of missiles. A further increase in profits is indicated for the current year but the stock must be regarded as speculative.

Curtiss-Wright Corp.: Output of engines for commercial planes will decline this year and in 1959 and this will probably be reflected in lower earnings. Has a management contract with Studebaker-Packard Corp. and the latter company's plan to produce a popular priced car, if successful, will be beneficial. Company is also striving to expand non-aviation operations.

Douglas Aircraft: Declining sales of piston-engine commercial planes and heavy costs of developing jet airliner indicate lower earnings in current and 1959 fiscal years. Increasing missile volume is an offsetting factor, expansion in missiles can improve longer term outlook.

Fairchild Engine & Airplane: Heavy start-up expenditures in introducing F-27 turboprop jet transport plane indicate a substantial loss during at least the first half of this year but some improvement may develop thereafter if further orders are received on this plane. Earnings have declined in recent years and a deficit was reported in the first quarter of this year. This is one of the more speculative issues.

General Dynamics: Planes and guided missiles produced by the Convair Division contributes the largest portion of sales and earnings. Company is also prominent in submarines and electronics and also engaged in atomic energy developments. Operations are widely diversified but military business continues to be the main activity of the company but management is striving to build up civilian business. Prospects continue favorable.

Grumman Aircraft: Backlog of orders is down and company is not regarded as a missile maker, thus prospects are not as promising as those of other Navy suppliers. Earnings have shown a declining trend in recent years and no improvement is indicated for the current year.

Lockheed Aircraft: Unfilled orders as of March 30, 1958 amounted to $1,251,523,000 and as Navy has chosen company's Electra turbo-prop aircraft for use in anti-submarine warfare, backlog has increased despite cutbacks in some military plane contracts and smaller commercial plane deliveries. Outlook for the current year has recently improved and missile business will increase.

Martin Co.: Producer of seaplanes for the Navy, is also one of the leading manufacturers of missiles, latter approximates more than half of current backlog. Profits will be restricted this year by large proportion of cost-plus-fixed fee on missile orders but this situation may change in 1959. Dividend yield is fair.

McDonnell Aircraft: A leading supplier of Navy fighter planes, also has contract for an Air Force jet fighter and prime contract for two new missiles. Earnings should be sustained over the near future. Cash dividend is conservative and the stock is speculative.

North American Aviation: Earnings and sales will decline sharply in current fiscal year and no important improvement is expected during 1959. However, company is engaged in rocket engines, electronics, missile and atomic energy which may have promising longer term potentials.

Northrop Aircraft: About half of volume is in missiles. A moderate increase over the $3.62 a share for fiscal year ended July 31, 1957 is indicated this year, the 40 cent quarterly dividend is expected to continue. This is a highly speculative issue.

Piper Aircraft: One of the three leading producers of private planes. Introduction of new model and increased use of planes by corporate executives indicate some improvement in near term earnings but this stock must be regarded as highly speculative.

Republic Aviation: Activities have been confined to fighter and fighter-bomber types of military airplanes. A further decline in earnings is anticipated this year until new fighter-bomber attains volume production later this year. 50 cent quarterly dividend not well assured.

Rohr Aircraft: Company has a good past record but prospects are clouded by changing procurement orders of largest customers, such as Boeing. Work on commercial jet models of principal customers expected to start in 1959. Near term prospects are fair.

Ryan Aeronautical: Activities of this leading supplier of components for airplanes and jet engines, rocket and ramjet motors and electronic equipment have expanded in recent years, with rising commercial and military business indicated, favorable earnings over the near term are indicated but dividends will continue highly conservative.

Solar Aircraft: Although earnings have shown a good recovery for fiscal year ended April 30 near term prospects do not appear promising in view of reduced military plane programs. Merger with Norden-Ketay will aid diversification. Stock is speculative.

Temco Aircraft: Prime sub contractor for major military aircraft manufacturers with income influenced by military procurement contracts. Creation of new products and planned expansion in missile and electronic fields makes outlook promising.

United Aircraft: Earnings record of this largest manufacturer of aircraft engines, propellers and helicopters is good. Guided missile orders at present are relatively minor but increased participation in this field is planned. Earnings this year are expected to be only moderately lower than last year's good results. 75 cent quarterly dividend provides an excellent yield.

Comprehensive Statistics Comparing the Position of Leading Aircraft Companies

Figures are in millions except where otherwise stated.	Boeing Airplane	Douglas Aircraft	General Dynamics	Lockheed Aircraft	North American Aviation	Temco Aircraft Corp.	United Aircraft
CAPITALIZATION:							
Long Term Debt (Stated Value)	......	$ 27.9	$ 44.1	$ 58.1	......	$ 5.6	......
Preferred Stock (Stated Value)	......	......	......	......	......	......	$ 38.1
No. of Common Shares Outstanding (000)	6,953	3,705	9,224	2,955	8,015	1,676	6,248
Capitalization	$ 94.8	$ 58.7	$ 53.3	$ 61.0	$ 8.0	$ 7.3	$ 69.3
Total Surplus	$ 84.0	$ 137.9	$ 216.0	$ 112.9	$ 162.4	$ 10.9	$ 183.4
INCOME ACCOUNT: Fiscal Year Ended	12/31/57	11/30/57	12/31/57	12/31/57	12/31/57	12/31/57	12/31/57
Net Sales	$1,596.5	$1,091.3	$1,562.5	$ 868.3	$1,243.7	$ 119.1	$1,232.9
Deprec., Depletion, Amort., etc.	$ 12.4	$ 10.0	$ 12.0	$ 10.6	$ 10.4	$ 1.0	$ 18.8
Income Taxes	$ 39.5	$ 35.4	$ 47.5	$ 17.1	$ 38.3	$ 2.5	$ 55.2
Interest Charges, etc.	$ 2.0	$ 2.3	$ 2.5	$ 4.7	$ 3.2	$ .9	$ .7
Balance for Common	$ 38.1	$ 30.6	$ 44.2	$ 16.3	$ 33.8	$ 2.5	$ 49.7
Operating Margin	4.9%	6.3%	5.9%	4.0%	5.8%	5.0%	8.4%
Net Profit Margin	2.4%	2.8%	2.8%	1.9%	2.7%	2.1%	4.1%
Percent Earned on Invested Capital	21.3%	18.1%	19.6%	14.0%	19.8%	19.9%	20.3%
Earned Per Common Share*	$ 5.49	$ 8.28	$ 4.80	$ 5.52	$ 4.23	$ 1.50	$ 7.97
BALANCE SHEET: Fiscal Year Ended	12/31/57	11/30/57	12/31/57	12/31/57	12/31/57	12/31/57	12/31/57
Cash and Marketable Securities	$ 45.1	$ 32.5	$ 53.8	$ 34.8	$ 29.3	$ 4.6	$ 32.5
Inventories, Net	$ 178.7[2]	$ 243.0[3]	$ 163.8	$ 200.3	$ 142.1	$ 13.7	$ 189.6
Receivables, Net	$ 21.3	$ 40.7	$ 63.5	$ 75.4	$ 114.2	$ 17.1	$ 113.0
Current Assets	$ 409.1	$ 331.6	$ 435.9	$ 344.4	$ 299.7	$ 44.9	$ 335.3
Current Liabilities	$ 312.1	$ 210.4	$ 299.8	$ 238.0	$ 179.1	$ 31.7	$ 194.3
Working Capital	$ 97.0	$ 121.2	$ 136.1	$ 106.4	$ 120.6	$ 13.2	$ 141.0
Current Ratio (C. A. to C. L.)	1.3	1.5	1.4	1.4	1.6	1.4	1.7
Fixed Assets, Net	$ 79.4	$ 71.0	$ 123.2	$ 61.1	$ 49.9	$ 4.9	$ 108.3
Total Assets	$ 491.0	$ 407.2	$ 570.6	$ 419.0	$ 349.6	$ 50.1	$ 451.4
Cash Assets Per Share	$ 6.49	$ 8.79	$ 5.84	$ 11.79	$ 3.66	2.80	$ 5.21
Inventories as Percent of Sales	......	......	......	23.0%	11.4%	11.5%	15.3%
Inventories as % of Current Assets	......	......	......	58.2%	47.5%	30.5%	47.5%

*—Data on dividend, current price of stock and yields in supplementary table on previous page.
1—Class 'A' stock.
2—Including deliveries under contract and cost-fixed fee contracts.
3—Including cost-fixed fee contracts.
4—Including unreimbursed expenditures.

scientific rocket propulsion builders."

These newcomers in military contracting are not handicapped by facility requirements. Tools and floor space for long-run production are no longer essential. High bay areas, needed by airframe manufacturers, are not necessary for missile production. Storage space for spares is no longer required.

Speaking of the new military aircraft, Mr. MacIntyre said, "The reason for developing these aircraft is primarily a matter of insurance. We sincerely believe ballistic missiles will greatly increase our ability to deter war. But we are still experiencing difficulties in flight control and guidance, propulsion, and other problems affecting reliability.

The Position of Aircraft Manufacturers

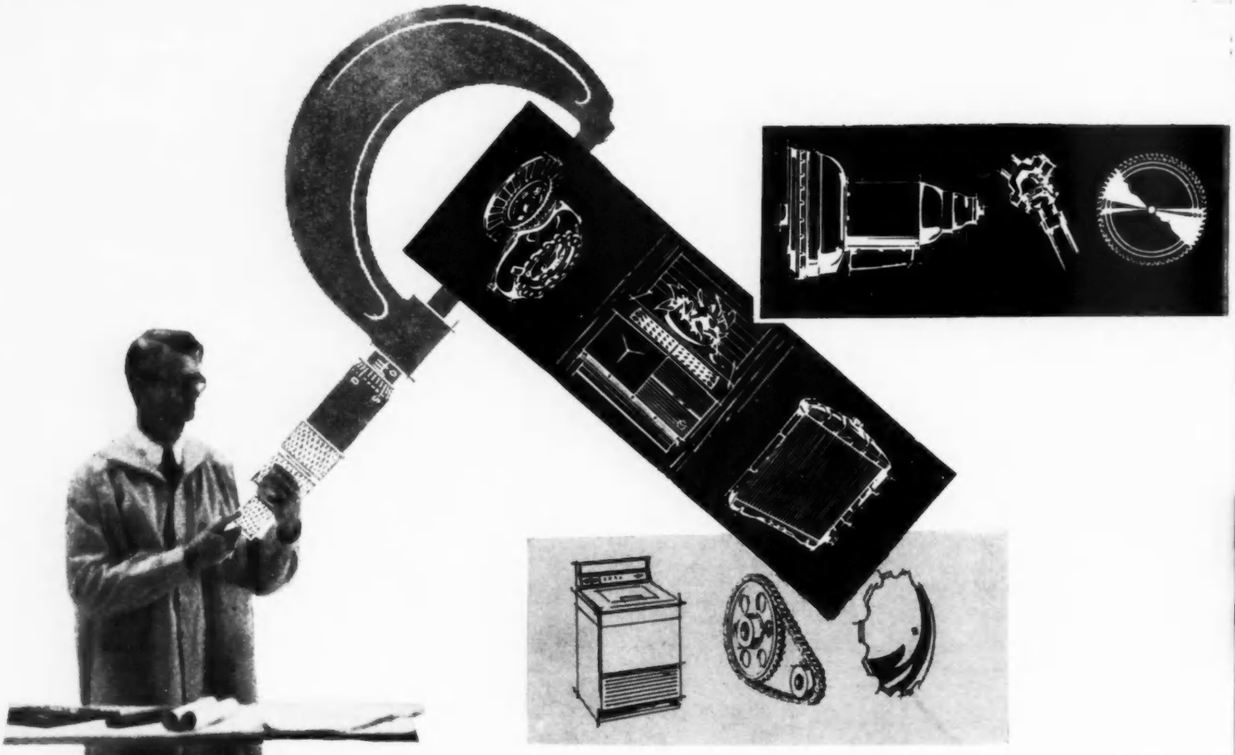
Aeronautical engineers, pilots, airframe manufacturers and their trade groups are vehement in their denials that manned aircraft will soon be obsolete as military weapons. They point out that missiles can never substitute for airborne human judgment upon meeting the unexpected or selecting among variables. They speak of the mixing and blending of the two weapons. Fighters and small aircraft will carry air-to-air guided missiles. Heavy bombers may become large missile-carriers. Top priority is now being given to development of air-to-surface missiles with nuclear warheads. The Air Force has ordered research work on a ballistic missile to be launched from military aircraft.

A mixed force of ballistic missiles and missile carrying aircraft for both offense and defense is being suggested by some military officers.

Astronautical engineers, avionic experts, missile makers and their scientific associates have thoughts and plans that are, literally, out of this world. They cite the huge sums and research efforts that are now going into reconnaissance satellites, glide bomber spaceships, aerial launchers for ballistic missiles, lunar shots and probes, and space vehicles to Mars and Venus. Some of these will materialize within a year, they say.

Space scientists talk glibly of space vehicles being propelled by engines using ion, photon, fission, fusion and solar energy. Engineers are now testing alloys of titanium, columbium, zirconium, as well as ceramics and cermets for spaceships and their propulsion systems.

Some military officers (*Please turn to page* 284)



Where Automation Has Fallen Short of Great Expectations

By SIDNEY F. COLEMAN

WIDELY heralded as an instrument that would release millions of workers from the drudgery of repetitive tasks, and that would at the same time make possible far-reaching gains in productivity, automation has brought many disappointments to industry in recent years. Some sensational successes also have been recorded. The latter have received much more publicity than the failures.

But the automation in factory and office entails very heavy investments. When these investments are taken into account, it has frequently been found that the results of the installation do not approach what management had expected to realize from the program.

For example, according to John Diebold, President of the consulting firm of John Diebold & Associates, of 300 companies which replied to a survey, 47 per cent of large computer users stated that the introduction of the computer had produced very little savings in clerical costs. Similar experiences were reported by 58 per cent of the medium scale computer users and 65 per cent of the small computer users. Seventy-two per cent of the reports indicated a monthly saving of less than $5,000, to be used to amortize the conversion and installation costs, and to provide a profit. Where the program has been well managed, however, it has produced substantial savings, and has made possible quicker reports, but in too many cases, management has not recognized the difficulties of installing automation, and has failed to make adequate preparations for it. In the latter cases, management itself did not possess the skill to apply automation successfully.

Often, management has approached automation with a pre-conceived idea that it was the answer to all major cost problems. Yet in many of these cases, the results achieved indicated that at best, management was only warranted in going ahead with a moderate increase in mechanization of various operations, rather than in adopting full-scale automation.

Current collective bargaining problems have indicated clearly that management in basic industries has become disenchanted with automation as the solution of the wage-price spiral. Yet only a few years ago managements entered into long term agreements with major unions calling for annual in-

Artist's conception of the automation process

creases in wages of 6 cents an hour or 2 per cent, plus cost of living escalation plus costly fringe benefits. This was done in the belief that the annual gain in productivity, with the aid of automation and stepped up mechanization, would fully offset the steady annual rise in wages.

The results of the last two years have shown clearly that automation has thus far failed to make good in the role chosen for it by management. Gains in productivity since 1955 have actually fallen short of the average realized in earlier postwar years, in spite of the record-breaking investments which have been made in plants, and in automation of all kinds. This slow-down in productivity gains has come at the very time when management has discovered that these long term labor contracts had built into them a feed-back factor which tended to keep wage and price inflation going until a breaking point would be reached. The feed-back arose from the steady flow of cost-of-living wage boosts, which were touched off by annual wage hikes and resultant price rises in many important industries.

Granting that some troubles of automation have been caused by poor preliminary studies, or by other mistakes of management, the fact remains that in many cases, automation has caused more problems than it has solved.

Here are just a few of the headaches which have come to those who have felt that automation was a simple, easy solution to many cost problems:

- A loss of flexibility in production has resulted. This has been extremely costly in some cases. With heavy investments in automated machinery, management has been unable to revise its products quickly to meet changes in consumer demand.
- Often, the anticipated volume does not warrant the cost of investment in automation. Costs are often far out of line with the results.
- Installation of automation has made necessary a sharp rise in the number and cost of highly skilled maintenance workers.
- In spite of the need and cost of this unforeseen requirement, management has often found that automation meant a substantial increase in "down-time," owing to "bugs" in the equipment. A single breakdown or malfunctioning of a small part might throw out of action an entire automated line of milling machines, boring machines, etc., representing an investment of $10 million or more.
- The belief that automation was a panacea for excessive costs has led management to let down its guard against unwarranted increases in overhead costs and in investment costs. Staff was built up in some cases until it was top heavy. Machinery investments became so great as to absorb all available liquid assets.
- Unions decided that since automation was a magic road to effortless and "worker-less" prosperity, that they could accelerate their demands enormously. Hence, since 1948, each year has seen the collective bargaining gains of unions grow larger and larger, while the net margin of profit in relation to sales grew smaller and smaller in the average company.

The Recession Threw the Spotlight

With the arrival of the recession, management has finally found it necessary to make a primary issue in collective bargaining of the fact that wage-cost-rises have been steadily outrunning annual productivity increases. The resultant price rises are in larger measure responsible for buyers' strikes in automobiles and other fields.

The indirect results of massive use of automation are not easy to evaluate. But there is considerable evidence that the auto industry's current sales problem is related to the high degree of automation in engine production.

This is how automation has contributed to the auto industry's current sales crisis:

Before the auto industry could make its initial investments—seven or eight years ago—in engine manufacturing plants employing transfer machines and other electronically controlled machine tools, it had to make a forecast of the possible useful life of the automated line. This meant that the manufacturer had to estimate the number of years it would manufacture a particular series of engine. The maker also had to build a degree of flexibility into the machine, to allow for certain future annual changes in the design of the engine.

The Gas Eaters

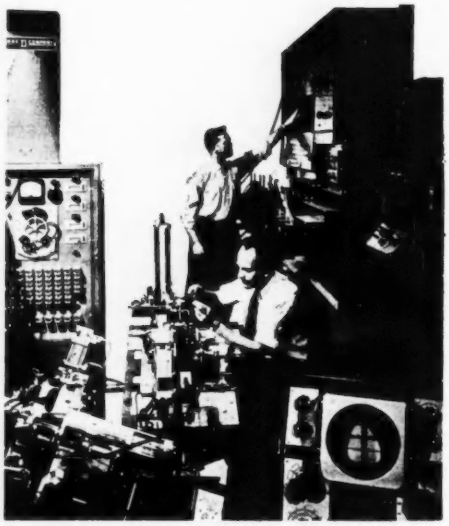
With the investment of hundreds of millions of dollars in such automation for engine production since 1950 the Big Three of the auto industry had committed itself almost irrevocably to the "horsepower race". Each year, the horsepower of high compression eight cylinder engines was stepped up 10 per cent or more. For the first few years—at least through 1955—the public reacted favorably to the manufacturers' policy of offering more horsepower

in each new model. But more horsepower or "torque" means more wasteful use of gasoline, because it is difficult to get the "pleasurable" effect of fast acceleration without using more gasoline than is consumed in slower starts with lower-horsepower engines.

A growing number of automobile users have been objecting to the low mileage per gallon of gasoline yielded by modern American automobiles. In many cases this yield is substantially less than what was realized from old-fashioned low-compression six cylinder and four cylinder engines.

But the auto industry has committed itself in large measure to the eight cylinder high-horsepower engine. So that the bulk of capacity today is in this type engine. The industry, if it were to stress the economy of its few remaining six cylinder engines would have to write off some big losses on eight cylinder engine plants, and would have to build new 6 cylinder factories.

The auto industry had no way of predicting that many car buyers would begin to place more emphasis on more economical fuel consumption. They began to resent the too frequent visits to gasoline service stations, not only because they had other necessary demands on their income—such as medical and educational services—but also because gasoline was costing more. Not only had several cents per gallon been added to gasoline taxes, but to drive modern cars with high compression engines, they were finding it necessary to buy premium gasolines and even super-premium gasolines. This was only one of the factors accounting for slower sales of cars, but it was a reason of basic importance.



Methods engineers test new automated quality control equipment

Learning the Hard Way

The automated engine line had come to an impasse. It did not possess the flexibity to meet the requirements of the market place in 1958. Hence, the volume of production of these lines has had to be reduced. At current levels of demand, more than one manufacturer is probably wondering whether his investments in full-scale engine plant automation can provide the profits that once seemed obtainable through such tooling. Yet it will take a year or more to get new economy type engines into production.

The lesson that has been learned is a basic one. If a product such as the automobile is going to be subject to frequent and perhaps basic changes to meet new consumer requirements, it does not offer a good potential for automation production or assembly. To assure maximum flexibility, and to avoid heavy model changeover costs, manual or semi-automatic operations may be preferable to a fully automated line, even though the latter would appear to promise lower labor costs.

A demand has arisen for "poor man's automation" —that is, a watered-down version of automation, involving automatic production of only a few parts, so that the mmanufacturer will be able to recover his investment in machinery.

Of course, where the styling changes are few, and the production volume is very high, automatic processing lines are a valuable means for cutting costs and improving quality. But the recession has made it clear that assured volume must be high enough to guaranty the recovery of the cost of the equipment. Volume which seemed easily attainable a year or two ago would today be regarded as a miraculous return to boom conditions.

Economics of Production Must Govern Outlays

From the above it can be seen that the suggested anti-recession panacea of rapid amortization to encourage new plant construction falls to the ground —it does not take into consideration the facts that have emerged from experience with automated facilities.

The greatest problems in factory automation today are economic rather than mechanical. Wise investment in tooling involves a careful evaluation of how the greatest economic gains can be achieved with the least investment.

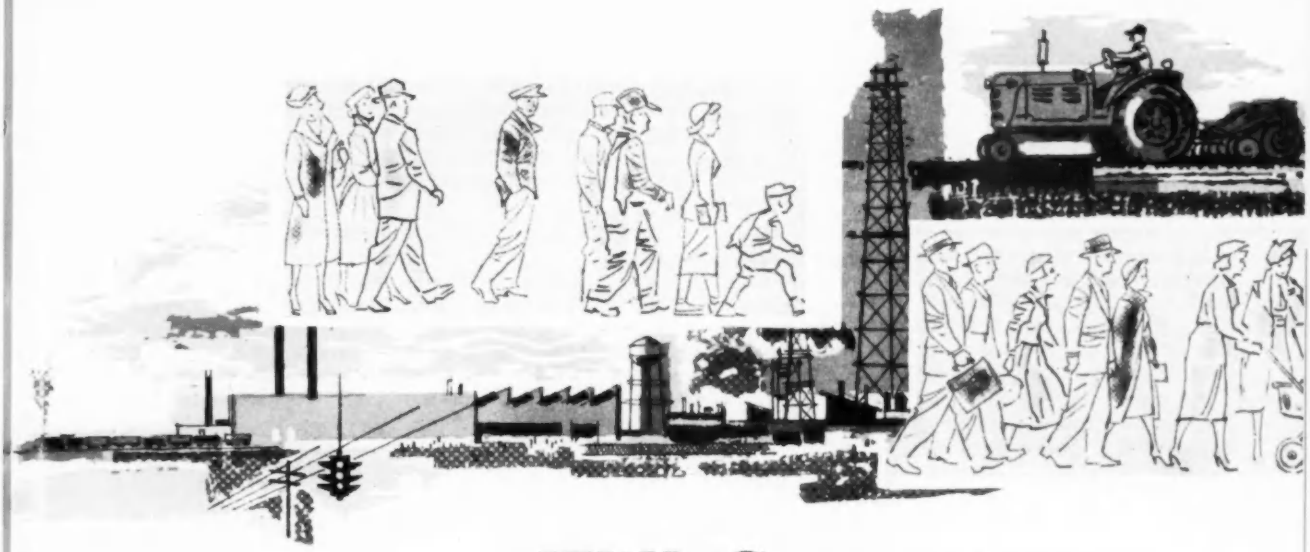
As full mechanization is approached, equipment costs increase at a much more rapid rate than the decrease in labor costs. Hence, total automation can be justified only in a small percentage of prospective applications. In many instances, it will be found that possibly 65 per cent of the investment will be required to accomplish only 10 per cent of the direct labor savings.

The problems of automation in the factory have been paralelled by equally severe problems in the office. Computers, particularly, have had a full quota of headaches. Companies which have produced computers have had some of the problems and some have abandoned this field already. Buyers of computers who did not wisely plan the installation of such complicated equipment in their offices have also run into many complex problems.

Some companies which had planned to introduce computers, such as Underwood Corporation and Marchant, have written off their investments in research and development of such equipment. In other cases, even where new equipment has ben successfully introduced, as in the case of Burroughs Corp., earnings problems have arisen.

These have developed from the unforeseen requirement of a more extensive service organization. Some computer users report that almost daily visits from factory service personnel is needed.

Management has seen the need for cutting down the mounting cost of paper work, and of obtaining quick reports and other data needed for the guidance of executives. The (*Please turn to page* 282)



Will Consumers Expand Their Buying?

—The Areas Favored Today

By J. ROGER WALLACE

THE current business recession, already steeper from the standpoint of decline in industrial activity than either the 1949 or 1954 setbacks, is providing ample evidence that the business cycle has not been abolished.

All recessions have certain similarities in common, but no two ever have been alike. And, there can be no denying that this one is "different". Never before, so far as can be ascertained, have the general commodity price level and the cost of living, continued to climb in the face of declining industrial activity and mounting unemployment.

These and other differences from anything that has gone before have been sufficiently perplexing to create all manner of shades of opinion as to the probable depth and length of the recession.

There still are many business men and investors who cling to the view that the second half of this year will witness vigorous recovery. At the opposite pole are those who are all but ready to push the "panic button". In between lie numerous opinions, including the view that the recession will "bottom out" late this year or early in 1959, but that a considerable time may elapse before an upturn gets under way.

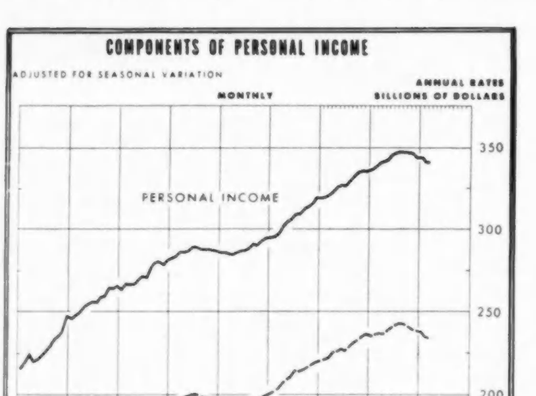
All factions seem to be agreed however, on the important role that the consumer can play in modifying the course and extent of the recession. In fact, the President has already urged the public to buy more freely as the best antidote to business weakness and private industry is using "buy more" sales slogans in the hope that these will galvanize the consumer into action.

This general reliance on the consumer to pull us out of the hole is not surprising in view of the help that this sector provided in the two previous post-war recessions. Consumer spending in those contractions held up remarkably well and enabled business to make necessary adjustments without any serious set-back to the economy. Can we again rely on the consumer to buck the economic tides and maintain a high rate of spending? The answer to this question should shed a great deal of light on prospects for business in coming months.

Pluses and Minuses

The consumer has always been guided in his spending plans, by the condition of his pocketbook, and this is as true today as ever. From this point of view, the recent figures on personal income are somewhat encouraging as they indicate an upturn in March and April, from the February low. Total personal income last month stood at $342.8 billion (annual rate adjusted for seasonal variation), only 1% under the all-time peak reached last August and somewhat higher than income levels of a year ago. Although February income seems to have been adversely affected by this year's inclement weather, the improvement since then nevertheless is a welcome sign of stability for this indicator.

Several factors have contributed to the relative stability of income. Most potent perhaps has been some of the social legislation of the past 25 years in alleviating the impact of recession. Thus wage and salary disbursements in April were at an annual rate of $233.3 billion as compared with $237.1 billion a year ago. However, this decline was more than offset by a rise of $4.6 billion in the annual rate of "transfer payments". This is the catch-all name given to what are primarily old age pensions and unemployment payments of one type or another. During 1957, these totaled $21.2 billion as against $18.5 billion in 1956 and $13.2 billion in 1952. The rate this year is already approaching the $25 billion level.



Cushion Not Cure

In times of business recession, the rate of transfer payments is accelerated. But, neither unemployment benefits nor other types of transfer payments can always be counted on to increase sufficiently to offset declines in income from wages and salaries.

Nevertheless, the fact that they do increase tends to lessen the shock. The tendency of a recession to "snowball" or feed upon itself is slowed down, although not checked, through the rise in unemployment benefits and old age pensions.

To be sure, there is a time limit on unemployment benefits, and many workers already have been unemployed so long that they no longer are entitled to benefits. But, a concerted effort is under way to lengthen, temporarily, the time limits in the various States. It is reasonably certain that the unemployed and their families will be provided sufficient funds, in one way or another, to maintain limited subsistence levels.

Other favorable factors that have limited the drop in income include still high dividend payments, fixed interest outlays and well-maintained proprietors' incomes. The latter include earnings of professional men, doctors, dentists, etc., as well as proprietors and farmers. Income of the latter has been strong of late because of Government price supports and high prices resulting from this winter's inclement weather, which in some cases changed the supply situation from surplus to shortage.

Shift In Consumer Demand

Buoyed by the still healthy level of consumer income, over-all spending by the public has not slipped much from last year's high levels, with total outlays at a healthy $281.2 billion total (at annual rates) versus the all-time peak of $283.6 billion, reached in the third quarter of last year. What has happened, however, has been a decided shift in demand, with durable goods suffering in the process while outlays for soft goods and services have continued to rise. Thus while expenditures for durables fell from a high of $35.1 billion last year to $31.5 billion in the first quarter of 1958, spending for nondurables fell only $1 billion during the period and services actually garnered $1.9 billion more than in the July-September period.

Part of this shift has been necessitous, arising from higher prices for foods and services and the relative inflexibility of demand for these items. Consumers have been unwilling to economize on food and meat packers report that demand remains strong despite higher prices. In previous recessions, demand for meat—a comparatively high-priced food – fell off rapidly and forced prices down. In general, foods have encountered little consumer resistance and the nation's total food bill has risen steadily in recent months. Other soft goods—apparel (with the exception of men's wear), gasoline, drugs, fuel—have displayed stability for the most part, with demand little changed from last year's levels.

The "Service" Pinch

It is in the field of services, that the biggest shift in demand has taken place. The percentage of disposable income paid out for "consumer services" has risen sharply in the postwar period. Currently, services now take over 36 percent of income as compared with 30 percent in the early postwar years.

Most services consist of necessitous items such as rents, public utilities for household operation, and purchased transportation. Unit costs of services have risen much more sharply during the past ten years

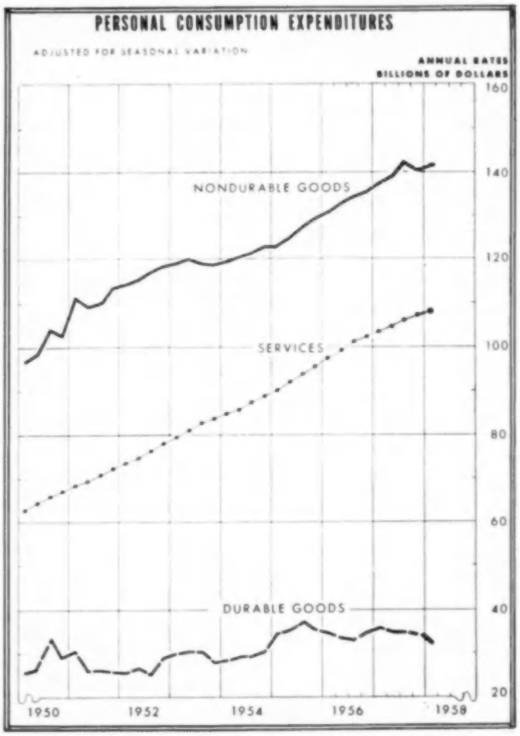
than have the unit costs of consumer goods.

Consumers are paying out a larger percentage of their incomes for services because they have to, not because they want to. The Department of Commerce recently noted: "Service expenditures are relatively insensitive to income changes as consumers have very limited ability to alter outlays for such service items as housing, household utilities, car repair, medical care, and education."

Retrenchment in Durables

Actually, the current percentage of disposable income paid out for services probably is more nearly "normal" than the lower percentages of the early postwar years, when the costs of services lagged far behind the costs of goods. Further recession would probably boost the relative share of income garnered by services, especially in view of rising prices in this field.

Faced by higher costs for food and services while incomes are tending to fall, consumers have naturally cut expenses by deferring purchases of durables, the category of expenditure which can be most easily postponed. Consumers are now unwilling to incur further debts in order to buy autos, household appliances and other "big-ticket" items that are normally bought "on time". Many consumers desire to catch their breath while they pay off some of the heavy loans previously incurred to buy durables. If consumers were to become panicky and curb their expenditures sharply, they could precipitate a sharp depression. Fortunately, they are showing no signs of such a loss of nerve. At the same time, they are paying no great heed to the blandishments of the "buy more" campaign, which is concentrated largely on autos and other hard goods.



Consumers, as a general rule, can not be persuaded to mortgage their future income during uncertain times "to help the country out of the recession". Some of them, indeed, have been irked at being high-pressured to carry the load of the recession. Uncertainty over the stability of income is one of the important factors in this decision.

Prices Too High

There also is widespread belief that prices of durable goods are "too high". Manufacturers' arguments of rising costs carry no great weight with consumers. There also is much dissatisfaction with inferior quality and forced obsolescence.

At the time of the 1949 and 1954 recessions, there still were great gaps in consumer pent-up demands that had not been filled. Now, apparently, as a result of very high level purchases in recent years, the gaps have been filled and some degree of satiation is evident. There is no other way to explain the fact that, for the first time since the end of World War II, consumers are becoming "really fussy".

Smart to Be Thrifty

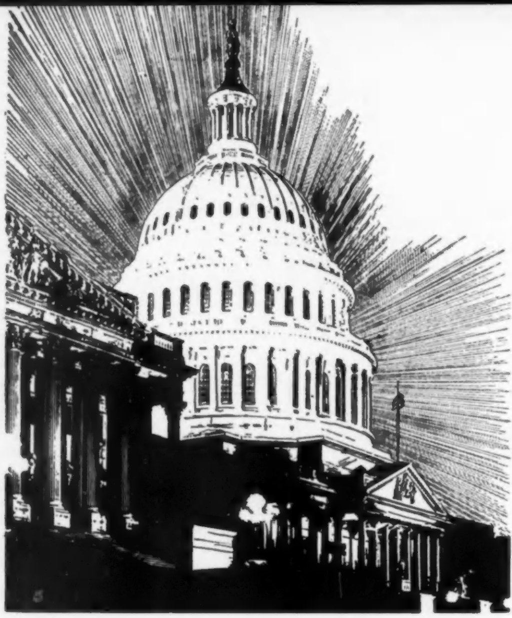
Another interesting development is renewed recognition of the virtues of thrift, especially among the upper income groups. Strictly off the record, members of the upper income echelons will admit they are being pinched by rapidly rising local taxes on real estate, the cost of putting two youngsters through college at the same time, the high cost of maintaining large homes, and so on. The way out is be stylishly thrifty. The trend towards the small imported, low gas consuming auto began several years ago in the elite Suburbia of the East. Although scorned at first, it now has the Detroit manufacturers of behemoths extremely worried. A more recent trend in Suburbia is the drinking of wine, frequently domestic, rather than Scotch and other whiskeys. Recently, at a swank dinner party in one of New York's wealthiest suburbs, the guests were served a simple beef stew. By establishing these trends as "smart" the upper income groups can retain their prestige and economize too.

Here in the United States, the middle income class and much of the lower income group strive to emulate the upper crust. Thus far, the "smart to be thrifty" trend has not caught on in a big way. If it does, however, manufacturers and retailers would undoubtedly have cause for tearing their hair.

The Savings Myth

The pressure to induce consumers to spend more is based to a large extent upon the belief that consumers have the money but will not spend it. Frequent mention is made of the high rate of savings. Actually, during the first quarter of this year, personal consumption expenditures for goods and services accounted for 93.9 percent of disposable personal income, as compared with 93.4 percent in the first quarter of 1957. Income was higher while savings were smaller.

Consumer "savings" are not just savings bank and other bank deposits. The government figures consider payments on installment purchases as savings. Other types of *(Please turn to page 288)*



Inside Washington

By "VERITAS"

CANADIAN threat of a 15 per cent reduction in its imports from the United States no longer is being taken seriously, as it was when Prime Minister Diefenbaker "pulled the figure out of the air" (to use his own description). Switch of commerce to Britain would improve the Dominion's trade deficit with the United States; a combination of the recession here and more aggressive selling by British firms already is accomplishing this to a degree. However the half-billion dollar business which those deals must produce for Canada to make the trade as valuable as it was with the United States haven't become visible. And if Washington retaliates with new tariffs, Canada will lose, as Diefenbaker well knows.

WASHINGTON SEES:

Fulfillment of the pledge made by Senate Democrats that they will produce a labor union reform bill by June 10 doesn't mean legislation will go on the books. Senator Lyndon Johnson, Majority Leader, will keep his promise; the Senate might even vote a code of morals—not as stiff a one as the public had been led to expect when McClellan Committee hearings were at their height, but going beyond registration and disclosure of fund handling. If that happens there is prospect that the Democrat-controlled House will refuse to go along. That would end it for this year.

Senator Johnson had no qualms about pledging unrestricted hearings on amendments to curb rackets, criminality, and collusion between certain employers and shady unions. The longer the better! In defeating the Knowland amendments to the registration-and-disclosure bill, Johnson counted enough votes on his side to insure that no bill seriously penalizing Labor will be enacted. That count frees those who sincerely felt legislative processes were being abused and that committee hearings should come first. On the House side there is a disposition to wait until the Senate has acted, then consider whether to hold hearings.

If the coalition of Democrats and Republican "liberals" tools a bill to which labor objects "only for the record" there is a possibility the House will act too. But the prospect of legislation that solves any of the real problems remains just about nil.

MINERALS SUBSIDY proposed by Interior Secretary Seaton is much less a protectionist move than appears, when the proposals to Congress are read and analyzed. In fact, the idea makes a bid for world trade cooperation which should redound to this country's benefit and strengthen the reciprocal trade agreement program. Idea is a minerals subsidy costing $161 million the first year, to bolster the producers of copper, lead, zinc, tungsten and fluorspar. But the guiding principle is precisely set out in language which declares for sustaining domestic production "without increasing the difficulties of our friends abroad." Plan is to pay producers the difference between support price and market price. Basically, the Brannan Plan.

FORTUNATELY for United States Senators, possibly, the votes of the United Mine Workers are a factor in only a handful of states. UMW will hold its indorsement from Senators who vote for "anti-labor legislation" at this session. The Senators from mining states probably aren't worried either; they won't have much at risk because very little labor legislation will come up. Even in Ohio, where there are miner votes, Robert A. Taft, Republican, trounced them in declared political war; Senator Frank Lausche, Democrat, with no show of apprehension, voted with the Republicans for the Knowland Amendments. And it will not be forgotten that John L. Lewis, himself, figured in the biggest fiasco of them all: the switch to Willkie.

RAILROADS prefer the Smathers Committee relief proposals over those made in the President's recommendations to Congress although it is entirely possible that the rails would get the same kind of relief under either. The basic difference is that the Senators would include removal of excise taxes now, and a more liberal tax amortization program than Ike included in his message. But the President didn't foreclose those seemingly essential aids; he expressed an attitude that tax matters should follow the normal routine of Ways & Means Committee consideration.

As We Go To Press

▶ Public demand that the labor union monopoly be broken up appears to have stirred the Justice Department and the Federal Trade Commission to new intensity against management monopolies. The Government apparently is re-acting to Labor's campaign to divert attention. To pointblank questions whether this is so, spokesman of the official agencies reply the field of action is a big one, only the surface has been scratched in 70-odd years of antitrust law enforcement. Friends of the unions are using their Congressional office and influence to prevent an imbalance of official attention to the detriment of labor.

▶ The House antitrust subcommittee has been probing charges that the Justice Department helped to set up, and then approved, an unusual settlement of one of the biggest antitrust suits in history. Contention has been heard that Bell Telephone came out of this one stronger than ever. The Federal Trade Commission has surveyed the business field and announced, with a disapproving note, that in nine months ended March 31, there were 731 corporation mergers in the United States. The Justice Department has asked the Federal court to forbid the proposed merger of Bethlehem and Youngstown Sheet & Tube, asserting this would solidify price-fixing tendencies. Of course the anti-merger move has dramatized Government's determination to move against the big as well as the small.

▶ Free competion is losing out in the small lines, too, FTC warns. Five companies which make and sell carpet gripper tackless stripping and accessories have been charged by the agency with restraining trade and fixing prices. The product is not exactly a business leader. Citing a potential of vast importance, FTC has charged that the two largest producers of barite are tightening their hold by unlawfully acquiring competitors. Back to the smaller industries: seven members of the flat gummed paper trades have been ordered to produce their records and minutes in defense of the charge that they have formed a monopoly.

▶ The complaints run a gamut from tobacco to shoes: the Ashville Tobacco Board of Trade is answering the charge it is keeping new tobacco warehouses out of North Carolina; International Shoe Co., is respondent in an action which says the company seeks to create a monopoly by refusing to service retailers who handle competing lines. The toy industry and the bottled gas industry are up on charges of monopolies in the making; also the juke box industry, and the movies-for-television trade. The sponge rubber "monopoly" might be dismissed as trivial were it not for FTC's complaint that it is promoted by big companies—B.F. Goodrich, the Dayton Rubber Co., and British firms which allegedy look to worldwide price control. Another big name in the "active" files is Hughes Tool Co. The charge: conspiring with a German concern to divide up the world markets and fix prices of oil and gas well drilling equipment.

▶ Final figures are in on 1957 export of aircraft, parts and accessories. For the second time in the history of the industry, shipments out of the country passed the $1 billion mark. Highlight was the increase in number and value of commercial and civilian aircraft; 2,025 planes worth $248 million--a boost of 18 per cent in number and 45 per cent in value from the preceding year. Helicopters registered significant gains—from 12 to 58, from $2 million to $10 million. Growth of the overseas market for United States planes is attributed to the worldwide use of military craft and the example of reliable performance this use has provided.

▶ Literature circulated within the private power industry suggests an income tax treatment of company executives salaries which is novel. Savings can be effected, the story goes, by considering a part of the executive's salary as represent-

ing time spent on construction of new facilities. This part then goes in as additional cost of the facilities and enlarges the capitalization base on which rates are set. And, for Federal income tax purposes, companies may deduct the salary item as being operating business expense. Saving to the company could amount to $33,000 a year on each $100,000 of salaries paid executives, it is claimed.

▶ The Administration is about to ask for another increase in the statutory debt ceiling. There is embarrassment in the White House and in the Treasury: This will make the sixth time in the six Eisenhower years that boosts in the national debt have been asked. Naturally, President Ike and Secretary Anderson know they will be clobbered on Capitol Hill and the unfortunately-chosen "peace, prosperity, and progress" banner will be further tattered. Only three months ago, the ceiling was raised from $275 to $280 billion a year. That's when the big mistake was made: in the interest of expediency and the solution of an immediate problem, the White House settled for a boost that was wholly impractical and on basic arithmetic couldn't see the government through the current fiscal year.

▶ Senator Harry F. Boyd blocked the $10 billion boost which the Treasury knew was needed. The Virginian finally gave ground to the extent of $3 billion and a compromise at the $5 billion figure was reached. Senator Paul Douglas of Illinois, a professor of economics in private life, warned Secretary Anderson that the increase wouldn't carry the government through this fiscal year. The Secretary said he'd try; knew he couldn't accomplish the tacit promise that the amount granted would do.

▶ The Treasury must mark time before deciding how much increase to seek. If there is to be a tax cut, if income tax collections fail to pick up, if there is to be greater and faster spending, the new ceiling may have to go to $300 billion. If there is a fast business pickup, another $5 billion might carry until January 1959, when another look will be taken. When the $5 billion was granted, the government faced a Fiscal Year deficit of $400 million. That figure has been dwarfed in the estimates which now range between $5-$10 billion "in the red" for Fiscal 1959. If added proof were needed, this experience underscores the fact that statutory debt limitations are at best arbitrary.

▶ The country struggled with debt ceilings a fraction of what today's stands at, in the pre-war days. Then debt soared under the necessity of tooling for and winning a war. The relationship between gross national product, national income and other factors on the one hand, and permissible federal debt on the other, has never been brought into clear focus. Some respected economists favor abandoning fixed ceilings, but the psychological value of a restraining bookkeeping entry (even though not fully effective) seems likely to block such a drastic step.

▶ The $275 billion limit may have been a prime contributor to the current recession. Last year when the business drop began to make itself felt, agencies were ordered to stay within their budgets, cut where possible, come what may. To comply with the mandate, Defense Secretary Charles E. Wilson ordered cutbacks in defense orders and slowdowns in payments on defense contracts. That fanned the fires. Aviation companies were among the first to feel the impact. This set up a psychological chain reaction that affected procurement in private as well as in public business. The rest is history which still is being written.

▶ Small business is not ordinarily related to the talk of great missiles programs but the fact is that this segment of the economy already is drawing benefits. Of the $1 billion paid to subcontractors of the aircraft industry engaged in ballistic missiles work during 1957, more than $267 million—21 per cent—was paid out to small business subcontractors. Their share of the business during the past year was based primarily on research and development activities. The share naturally will be larger as the industry moves into the production phase of the program.

▶ Associated contractors in the ballistic missile program——those who manufacture power plants, guidance systems, and nose cones—have paid out to small business almost 50 per cent of the total funds involved in these items.

What I Saw behind the iron curtain

— First-hand study of economic and social conditions today

BY MARTIN JIRI KALLEN

(EDITOR'S NOTE: This story is by an outstanding economist with a sophisticated background in these countries before World War II and since. You will greatly value this realistic and objective feature.)

MY TRIP this year, which began in Egypt, followed a great arc from the Middle Eastern countries to Southeastern Europe, including the domain of Marshall Tito. It ended behind the Iron Curtain in Czechoslovakia, the most industrialized of the Soviet satellites and the one with the highest standard of living. I had known the country quite intimately, both in its heyday as a successful democracy during the inter-war period, and again after it had emerged – relatively unscathed – from World War II prior to the Communist coup in February 1948.

I had looked forward this Spring to seeing Czechoslovakia again. Visitors to the Soviet Union have reported greatly improved conditions there and I had hoped I would find a similar improvement in Czechoslovakia. However, I had no illusions about the harshness of life under a communist regime and I was aware that Czechoslovakia had undergone the gruelling experience of a ruthless economic transformation after her absorption into the Soviet empire.

Victim of Geographic Location

Situated in the heart of Europe, Czechoslovakia has historically been the unfortunate victim of her geographic location. For the past few centuries, her inhabitants have generally found themselves involuntarily under the domination of whoever controlled Central Europe; in recent years, this has been either Germany or Russia. Czechoslovakia's two key provinces, Bohemia and Moravia-Silesia, were among the most industrialized sections of the old Austro-Hungarian Empire; Slovakia was an underdeveloped agricultural area, but endowed with some mineral resources. During the days of the Hapsburgs, Bohemian industries were geared to the

CZECHOSLOVAKIA: Foreign Trade 1948-1957 (Millions of U.S. Dollars)							
EXPORTS	**1948**	**1950**	**1953**	**1954**	**1955**	**1956**	**1957***
Capital goods	153	206	421	387	511	559	408
Consumer goods	231	197	121	146	131	213	158
Fuels & raw materials	328	277	367	390	462	512	329
Food	41	99	85	82	72	103	48
Total Exports	753	779	994	1,005	1,176	1,387	943
OF WHICH TO: (per cent)							
Eastern Trade Area	33	52	78	75	68	64	63
Western Europe	47	33	13	16	18	19	21
Other	20	15	9	9	14	17	16
IMPORTS							
Capital goods	49	71	123	112	140	203	169
Consumer goods	18	17	13	22	43	37	34
Fuel & raw materials	385	390	477	493	565	653	564
Food	229	161	266	306	305	293	220
Total Imports	681	639	879	933	1,053	1,186	987
OF WHICH FROM: (per cent)							
Eastern Trade Area	31	54	79	75	71	66	68
Western Europe	50	33	14	16	17	20	20
Other	19	13	7	9	12	14	12

*nine months.

needs of Central and Southeastern Europe. When, after 1918, the other countries created out of the old Empire launched their own industrialization programs, Czechoslovakia was forced to turn to Western markets to sell her textiles, shoes, glass and porcelain products, and many other manufactures including some machinery and tools. In general, the westward shift was highly successful, and she became one of the foremost industrial trading countries in Central Europe.

During the Second World War, many engineering and chemical plants were transferred by the Germans to Bohemia and Moravia, where they would be more likely to escape Allied bombing raids. When the Communists took over in February 1948, and especially after the outbreak of the Korean War, the transformation of the Czech economy from a producer of consumer goods for western markets to a producer of capital goods for the Soviet orbit was accelerated.

Industrial Spearhead for the Soviets

Factories that had produced fine Bohemian glass or porcelain products for home use, for example, were re-equipped to make glass and porcelain for industrial and laboratory uses. Textile and shoe factories were closed and their equipment shipped to Slovakia, Roumania, or Bulgaria. Simultaneously, the output and the range of capital goods industries was greatly expanded. These included heavy and armament industry products, including tanks, and engineering products, such as jet planes, electrical equipment, motor vehicles, and precision instruments. By 1955, Czechoslovakia had become one of the world's six largest machinery exporters — the others being the United States, the United Kingdom, Germany, France, and Japan—supplying dredges, diesel engines, factory equipment and machine tools, not only to the Soviet orbit countries, but also to India, Argentina, Iran, Indonesia, Syria and Egypt.

In 1956, some two-thirds of Czech industrial production — which had nearly doubled in the 1947-56 decade—consisted of capital goods, a very high percentage for any country. There is no doubt that in line with the worldwide trend toward industrialization, Czechoslovakia would, in any case, have had to revamp her industrial structure — even if she had remained in the Free World. As it has worked out, however, the doubtful honor of being the industrial spearhead of the Soviet bloc has created serious problems, apart from lower living standards and increased human suffering, from which Czechoslovakia is now trying to extricate herself.

Capital goods industries normally require a much heavier investment per worker than do consumer goods industries. In Austria and the Netherlands, among other countries, American aid helped to make possible such an industrial expansion and transformation. But under the dictum of Stalin, the people of Czechoslovakia were forced to decline the proffered American assistance and to finance their top-heavy capital goods industries by devaluing their currency, wiping out their savings (in 1953), and by postponing the satisfaction of their needs for housing and clothing and by working longer hours. The new industries have also greatly increased the country's energy requirements. Despite the construction of many new hydroelectric stations and the doubling of coal output, there is a chronic shortage of coal, which is also used as raw material in the new chemical industries producing plastics, synthetic fibers and rubber, and gasoline. Miners, the best-paid workers in the country, are constantly exhorted to increase production.

Czechoslovakia's foreign trade, which has risen strongly during the decade of the communist regime, reflects the excessive concentration on heavy and capital goods industries. Over half of Czechoslovakia's imports in 1957 consisted of raw materials and fuels, while over 40 per cent of all exports were capital goods. Along with the Soviet Union and East Germany, Czechoslovakia has become a creditor nation to the underdeveloped countries of the Communist bloc as well as to some underdeveloped countries of the Free World, such as Egypt, Syria, Indonesia, and Uruguay, which have been pressed for dollars and other hard currencies. Since, for political reasons, credit arrangements are usually very liberal, the Czechs have been collecting little for their exports to the underdeveloped countries, while going into debt to the Soviet Union—the chief supplier of raw materials, including iron ore and nonferrous metals.

A Nation of Cynics and Disheartened People

Before one has been in the country very long one gets the impression that the Czechoslovak people are

like squirrels on a treadmill: working hard and saving, but getting nowhere. They may be better off than the people in other communist countries, but their standard of living is now lower than it was in the early postwar years, prior to the Communist coup. Despite the existence of the Iron Curtain and the jamming of radio programs, they are quite aware of the spectacular economic miracles that have taken place next door, in West Germany and Austria. Except for a few party members, most of the people this writer met were cynical about the industrial transformation of their country and its remarkable achievement of industrial self-sufficiency. Instead, they tended to stress the blunders and wastefulness of the Communist planners and to quip about Czechoslovakia's unwanted role as the Soviet bloc's arsenal for its peaceful co-existence and trade offensive. Like the Germans, the Czechs are hard-working, thrifty people; although the drastic currency devaluation in 1953 has tended to encourage spending, people have saved enough money to buy cars and household appliances, but until recently the internal market was deprived of these products for the sake of exports.

YUGOSLAVIA: Foreign Trade

1953-1957

(Millions of Dinars)

EXPORTS	1953	1954	1955	1956	1957
Food	12	24	24	33	
Raw materials	21	21	23	23	
Machinery & transportation equipment	1	2	1	4	
Other manufactures	22	25	29	37	
Total Exports	56	72	77	97	118
OF WHICH TO: (per cent)					
Eastern Trade Area	....	3	14	23	25
Western Europe	78	77	62	57	55
Other	22	20	24	20	20
IMPORTS					
Food	33	25	36	45	
Raw materials	15	15	23	22	
Machinery & transportation equipment	38	27	33	28	
Other manufactures	23	35	40	47	
Total Imports	119	102	132	142	150
OF WHICH FROM: (per cent)					
Eastern Trade Area	....	1	7	22	20
Western Europe	57	57	46	40	43
Other	43	42	47	38	37

People are Tired and Shabby

Except for children, who look well-dressed and exceptionally healthy, the people have a tired, dejected look. Sallow complexions predominate. The Czechs like heavy, fattening foods, including bakery products and this may account for the fact that they generally look well-fed. The food situation has improved materially in recent years, and there is apparently no shortage of such staples as flour, potatoes, and dairy products. But meat products are expensive, and families in which there is only one wage earner cannot afford them regularly. Coffee, cocoa, oranges, and other tropical imports command exorbitant prices in relation to people's earnings. One also sees in store windows crab meat from North Korea, mandarins from North Vietnam, pork products from Red China, and champagne from Bulgaria, but there is not much buying. Many of the retired middle class live on a starvation diet.

The woolen clothing situation is quite desperate. The purchase of a man's suit, for example, may require the greater part of a full month's salary or wage. Most men, especially in provincial towns, are shabbily dressed in ill-fitted suits and coats that have been turned and patched. As for women, one sees hardly any who are elegantly dressed. They seem to have developed an aversion to colors, largely because, for political reasons, no one wants to be conspicuous.

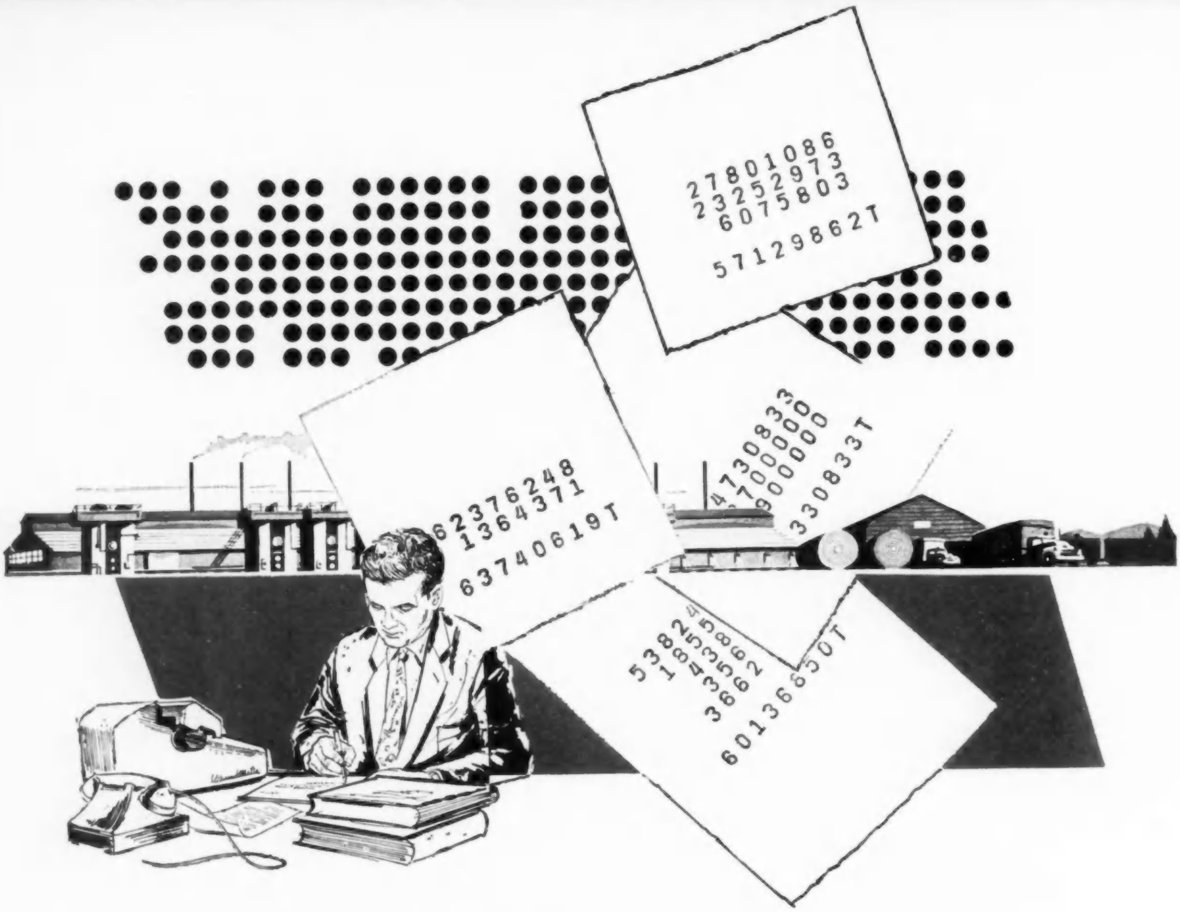
Desperate Housing Conditions—Appearance of Cities

While food and clothing are expensive, there are but few taxes to pay. Medical and hospital service is completely free and the State is liberal in granting sick leaves to the country's leading spas, where medical care and service are said to be first class. Rents are extremely low, almost nominal, but good housing is hard to get.

Except for the building of barrack-like houses in which apartments are allotted chiefly to party members and army and security men, practically no family houses have been built in Chechoslovakia since the beginning of World War II. With only about 16 square yards of living space allowed per person, there has been some extraordinary "rabbit cooping" in the existing houses. The destruction of family privacy has been made the subject of cynical and Rabelaisian jokes.

The former owners are the ones who have received the short end of the stick, however. The nominal rents which they collect are taxed away, leaving practically nothing for repairs. Moreover, no one knows how long he will be left in possession of his property. This situation explains the sorry dilapidated appearance of most Czech cities, especially in the former Sudetenland; plaster is falling from the walls, there are holes in the roofs, and window frames are rotting. Since everybody is rather outspoken, you are soon informed that after another 10-15 years of the communist regime the bulk of the houses may not be fit to live in.

Much the same disregard shown by the communists for private housing is also evident in hotel maintenance, except in the main cities and such well known spas as Karlsbad and Marienbad. Foreigners whom the Prague regime is encouraging to visit the country, get a mistaken notion of the actual state of affairs. In small provincial towns off the beaten tourist path, the hotel situation is almost as bad as in Siberia or Russian Central Asia, and excursions off the beaten track are recommended to only the hardiest of travelers. The restaurant situation is almost as bad. Most of the charming country inns have become "agitation (*Please turn to page* 286)



PART TWO

What First Quarter Earnings Reports Reveal

— Reassurance for some Stockholders — Shock for others

BY JOSIAH PIERCE

WHEN driving along a mountain road, the motorist may read the sign that says "Go Slow — Curve Ahead". His reaction to the warning will depend on circumstances, as well as on his temperament. The same is true in the stock market among institutional and other investors who are continuously seeking an outlet for their funds. For various reasons their buying at this time is puzzling, for the road ahead is not entirely clear and, even if the business decline levels off soon, there is a question as to the prospect for higher earnings in the foreseeable future, due in great part to the rigid wage structure in industry in general. Many stocks, in our opinion, are still selling at high price-earnings ratios and offering particularly low yields. This may be due, in large measure, to the fact that they are being firmly held in portfolios, thus greatly limiting the floating supply—or being purchased for purposes of averaging on a long range position.

As an illustration, we may cite four outstanding "growth" stocks, each preeminent in its field and generally favored by institutional and individual investors alike—namely, Corning Glass Works, Eastman Kodak, Minneapolis-Honeywell and Minnesota Mining & Manufacturing. First quarter earnings of these leaders were lower than a year ago, but the decline in their profits might appear moderate if it were compared with the sharp drop shown by many other companies. At current prices, Corning Glass and Minnesota Mining are selling around 40 times the annual rate of earnings indicated by their first quarter statements, and yielding less than 2% on their dividends, assuming continuation of any extra paid in the recent past. Similarly, Minneapolis-Honeywell is selling at about 35 times indicated earnings and yielding a fraction over 2%, including the extra dividend of last December. Finally, Eastman Kodak appears to be selling at the somewhat less formidable ratio of 25 times earnings, with what some stockholders might view as a satisfactory

yield, namely somewhat over 2.5%, assuming continuation of the January extra. Other investors of course, including prospective purchasers, might not be inclined to enthuse over such a modest return, especially in a period when the trend of earnings is downward.

Growth Stocks Show Lower Profits

First quarter earnings of **Eastman Kodak** for the 12 weeks ended March 23rd, amounted to 76¢ per share, as against 91¢ a year ago. Thus, profits declined 16%, despite a 1% increase in sales. Average prices of the company's products were a little less than 2% higher than a year ago, or more than enough to account for the gain in sales. Among factors contributing to the decline in earnings, wage costs were higher and expenditures on research and advertising were more than last year. The regular 65¢ quarterly dividend was paid on April 1st. In January, a 25¢ extra was paid. The first quarter statement might indicate an annual rate of earnings around $4.25 per share, compared with $5.09 reported for the year 1957. At the current price of about 107, the stock is selling at 25 times the $4.25 indicated earnings and yielding about 2.7% on dividends paid including the January extra.

Corning Glass Works reported first quarter earnings of 47¢ per share, compared with 57¢ for the initial period of 1957. Although sales were approximately the same as a year ago, profits were 18% lower. The regular 25¢ quarterly dividend was paid on March 31st. A 50¢ extra was paid last December. If we assume that the company's earnings will continue at the annual rate indicated by the first quarter, then profits this year may be around $2.00 per share, as against $2.43 reported for 1957. At the current price of about 83, the stock is selling at over 40 times indicated 1958 earnings and almost 35 times 1957 earnings, with a yield of 1.8%, assuming the 50¢ extra dividend is paid again.

Minneapolis-Honeywell's first quarter profits were 61¢ per share, as against 75¢ a year ago, representing a 19% decline. In this instance, sales were about 4% lower than the initial three months of 1957. The regular 40¢ quarterly dividend has been declared payable June 10th and a 15¢ extra was paid in December. If 1958 earnings are estimated at approximately $2.50 per share, the current price of about 87 for the stock represents a valuation of 35 times earnings and provides a yield of 2%.

Minnesota Mining & Manufacturing reported first quarter profits of 47¢ per share, compared with 58¢ a year ago. Sales declined 5% in the recent quarter from the initial 1957 period. Evidently, higher costs contributed to the 19% decrease in earnings. If we assume this year's profits may be around $1.90 per share, as against $2.34 for 1957, then the stock at the current price of about 76 is selling at 40 times 1958 earnings and 33 times 1957 earnings. The yield is 1.6% on the $1.20 annual dividend rate (no extras are paid).

If second quarter earnings are no better than the first quarter or if the business recession should continue, those four stocks would appear to be overpriced.

Mixed Trends of Building Stocks

The general classification of building stocks represents widely varying fields of activity. In most areas, the industry is cyclical in character and, in the case of many products, it is highly competitive. Yet there is a varying degree of stability among the individual companies.

The poorest performer is **American Radiator** which even in the boom did not do too well. First quarter earnings declined drastically to 11¢ per share, from 26¢ a year ago and 48¢ in the initial 1956 period. The two year downtrend reflected, among other factors, the lower level of home building and price competition in heating and plumbing equipment. In the recent quarter, domestic sales were 12% lower than a year ago. If dividends received from foreign subsidiaries were deducted from reported profits, then 1958 first quarter earnings were only about $77,000 or less than 1¢ per share, compared with 13¢ a year ago on a similar basis. At the annual meeting, the president of the company stated that excess industry capacity exists in most of its product lines. A year ago, the quarterly dividend was reduced from 35¢ to 25¢ per share. Recently there was a further cut to 10¢ per share, payable June 24th. Prospects for the rest of the year are not inspiring.

Johns-Manville, on the other hand, did remarkably well during the boom. Earnings for the first quarter of this year amounted to only 27¢ per share, compared with 41¢ a year ago and 64¢ for the first 3 months of 1956. In the recent quarter, the decline in sales was 10% and in earnings 34%, from the initial 1957 period. It may be said that corporate experience in general has shown that a 10% sales drop can often reduce profits somewhere in the 20% to 30% range, as certain costs, such as over-head are relatively inflexible. However, in the case of Johns-Manville, costs of materials and wages were higher. At the recent annual meeting, the company stated that it had not been able to increase prices to compensate for higher costs and still remain competitive. Its products are used by a wide number of industries, in addition to building, and lower sales recently thus reflect the business recession, as well as reduced construction. The latest 50¢ quarterly dividend was paid on March 14th and the next meeting is on May 21st. The maintenance of the recent dividend rate is not assured.

In sharp contrast with the trend shown for the two companies just discussed, **Otis Elevator** reported an increase in first quarter earnings to 80¢ per share, from 73¢ a year ago and 61¢ in the initial 1956 period. The company has a dominant position in elevators and escalators, with repair and maintenance work lending stability to its business. It is benefiting from current office and apartment building construction, as well as from conversion to automatic elevators that save paying wages to attendants. It is also enjoying a high level of demand for its automatic bowling alley equipment. To date at least, it presents the paradox of a heavy industry company apparently immune to the business recession. The price of the shares, however, seems to have discounted the company's improved position—at least for the present.

Television and Radio Industry

It is well-known that **Radio Corp. of America** is engaged in various activities, including television broadcasting, operation of a telegraph and radio system, and the manufacture of electronic equip-

Quarterly Comparison of Sales and Earnings

	Earnings Per Share					Net Sales (Mil.)				
	1958	1957				1958	1957			
	1st. Quar.	1st Quar.	2nd Quar.	3rd Quar.	4th Quar.	1st. Quar.	1st Quar.	2nd Quar.	3rd Quar.	4th Quar.
Abbott Laboratories	$1.16	$1.01	$ .31	$1.21	$ .77	$ 33.0	$ 29.3	$ 22.1	$ 32.5	$ 27.5
Allis-Chalmers	.27	.61	.74	.41	.35	119.6	137.9	147.8	133.5	114.8
Alpha Portland Cement	[d] .16	.34	1.02	.55	1.07	3.7	5.0	10.7	7.1	7.2
American Can	.41	.43	.86	1.15	.31	220.1	213.0	220.5	266.8	345.2
American Radiator	.11	.26	.19	.25	.35	78.5	89.2	94.0	95.5	89.9
American Viscose	.13	.85	.36	.26	.18	49.3	64.1	53.9	54.5	55.0
Bridgeport Brass	.30	.88	.88	.51	1.15	29.3	30.7	39.1	34.3	39.0
Brunswick-Balke-Collender	.50	.10	1.04	2.47	2.00	27.8	19.1	26.2	39.9	37.3
Burlington Industries	.22	.42	.31	.50	.44	162.4	170.5	154.4	169.1	170.2
Celanese Corp. of America	.23	.30	.26	.30	1.08	48.9	46.8	48.4	50.2	46.8
Coca-Cola	1.11	1.24	2.19	2.41	1.22	n.a.	n.a.	n.a.	n.a.	n.a.
Colgate-Palmolive Co.	1.72[3]	1.70[3]	1.04	1.70	4.01[3]	128.2	128.4	66.3	73.4	296.4[3]
Corning Glass	.47[1]	.57[1]	.65[1]	.64[2]	.57[1]	36.9[1]	36.6[1]	38.4[1]	46.6[2]	38.2[1]
Eastman Kodak	.76[1]	.91[1]	1.17[1]	1.32[1]	1.68[2]	164.4[1]	163.0[1]	184.8[1]	193.4[1]	210.4[2]
Eaton Mfg. Co.	.85	1.66	1.92	1.03	1.41	43.5	58.5	62.9	49.0	51.3
Electric Auto-Lite	.41	2.31	1.69	.49	.24	44.2	80.2	71.2	57.8	57.6
Food Machinery & Chemical	.94	1.15	1.51	.90	1.07	70.0	80.9	85.1	75.8	72.0
Freeport Sulphur	1.18	1.27	1.39	1.21	1.32	n.a.	n.a.	n.a.	n.a.	n.a.
General Motors	.65	.93	.78	.43	.84	2,721.3	3,076.9	2,837.4	2,320.5	2,754.8
General Portland Cement	.79	.91	1.07	.51	.88	9.2	9.9	10.9	7.0	9.8
Goodyear Tire & Rubber	1.03	1.67	1.80	1.51	1.14	308.2	353.1	367.8	361.4	339.3
Inland Steel	1.40	2.59	2.68	2.70	2.74	150.2	203.6	203.1	184.5	172.7
International Nickel	.84	1.61	1.51	1.40	1.39	85.2	109.8	113.5	106.8	112.5
Johns-Manville	.27	.41	.79	.80	.47	59.1	65.6	82.4	85.2	74.7
Jones & Laughlin	.17	1.89	1.85	1.46	.77	144.5	203.9	228.3	218.4	186.7
Lehigh Portland Cement	.19	.41	.76	.25	.36	10.6	11.8	22.0	18.4	17.5
Link Belt	.71	1.37	1.54	1.30	1.21	35.8	41.7	45.2	40.5	35.9
Minneapolis-Honeywell Regu.	.61	.75	.76	.60	.99	73.1	76.3	81.8	76.3	90.3
Minnesota Mining & Mfg.	.47	.58	.60	.58	.59	85.2	89.4	92.1	92.6	95.9
Motorola	.35	1.10	.66	1.00	1.28	40.8	52.2	53.3	60.3	60.3
Otis Elevator	.80	.73	.83	.76	1.27	n.a.	n.a.	n.a.	n.a.	n.a.
Pepsi-Cola	.26	.25	.60	.52	.24	n.a.	n.a.	n.a.	n.a.	n.a.
Philco Corp.	[d] .28	.20	.11	.37	.26	74.0	100.3	83.3	87.5	102.4
Phillips Petroleum	.60	.83	.73	.61	.64	261.7	296.1	176.7	282.9	276.0
Polaroid	.32	.22	.31	.34	.57	11.6	8.1	10.8	11.5	17.5
Procter & Gamble	.96	.91	.77	1.02	.77	n.a.	n.a.	n.a.	n.a.	n.a.
Radio Corp. of America	.59	.87	.48	.52	.65	278.3	295.7	269.2	288.6	317.3
Revere Copper & Brass	.46	.91	.84	.73	.77	41.2	53.8	55.3	44.2	46.0
Schering Corp.	.85	.86	.70	.81	1.61	20.1	20.2	14.4	15.0	25.4
Shell Oil	.87	1.37	1.12	1.01	.97	408.6	467.2	435.3	432.9	429.1
Standard Brands	1.11	1.05	.95	.96	1.05	132.7	129.3	126.1	131.0	127.4
Standard Oil of Calif.	.91	1.10	1.06	1.19	1.21	361.3	419.1	419.3	421.9	390.4
Standard Oil of Indiana	.88	1.30	1.04	.88	1.03	474.2	550.5	488.3	491.1	480.2
Standard Oil of N. J.	.82	1.20	1.15	1.00	.61	1,890.0	2,043.0	1,987.0	2,011.0	1,789.2
Texas Gulf Sulphur	.35	.56	.54	.28	.38	12.1	17.8	19.2	15.3	14.4
U. S. Gypsum	.94	1.01	1.31	1.39	1.07	56.4	56.2	64.2	70.1	59.0
U. S. Steel	1.04	2.03	2.04	1.70	1.56	800.0	1,166.4	1,170.3	1,042.7	998.7
Westinghouse Electric	.73	.82	.95	1.07	1.35	449.3	475.6	507.2	494.3	531.7
White (S. S.) Dental Mfg. Co.	1.32	.46	.56	.60	1.81	7.3	5.4	6.0	6.2	7.6
Zenith Radio	2.07	1.67	.76	2.52	3.33	42.1	36.6	29.8	44.6	48.9

n.a.—Not available.
[d]—Deficit.
[1]—12 weeks.
[2]—16 weeks.
[3]—Includes foreign subsidiaries.

ment, as well as production of TV and radio receiving sets. For the first quarter of this year, the company reported a decline in earnings to 59¢ per share from 87¢ a year ago. Sales and revenues were about 6% lower than last year. A number of factors were responsible for recent results. It may be noted that the company's defense business was higher than a year ago, including its contract work on a super radar warning system. In the recent quarter, sales of color TV sets were running ahead of last year, although this division is still in the red with respect to profits. There appears little doubt that depressed conditions in the TV and radio receiver industry contributed to the company's first quarter showing. The indicated annual dividend rate is $1.50 per share, including a 50¢ extra paid in January. The near-term outlook is still somewhat unclear.

First quarter earnings of **Motorola, Inc.** dropped sharply to 35¢ per share from $1.10 a year ago. Sales declined 22%, reflecting conditions in the industry. The company is an important producer of television and radio receiving sets, as well as other civilian and military products. The 37.5¢ quarterly dividend was paid on April 11th, although it was not earned in the recent quarter. **Philco Corp.,** a leading manufacturer of TV and radio sets, home appliances and other products, reported a deficit of 28¢ per share for the first quarter of this year, compared with a profit of 20¢ per share a year ago. Sales were 26% lower than last year. The company stated that the appliance and TV-radio industries have suffered a sharper contraction in volume than consumer durable goods as a group or the economy as a whole. The president added "we see no real upturn for some months." No dividends are paid on the stock.

These two companies appear to present highly speculative risks.

Zenith Radio has shown remarkable resiliency, notwithstanding conditions in the industry. The company reported a substantial gain in first quarter earnings to $2.07 per share from $1.67 a year ago, after adjustment for the 2 for 1 stock split of March 31, 1958. Sales were 15% higher than in the initial 1957 period. All phases of the company's business shared in the increase, including TV and radio receivers, high fidelity phonographs and hearing aids. Factory shipments of TV receivers were up more than 12% over last year, in contrast with an industry decline in the first quarter of 19% from a year ago, accompanied by widespread price cutting and liquidation. Shipments of radio receivers were higher for the company in the first quarter, in good part due to its large volume in transistor portable sets. In brief, the company has emphasized high quality and superior values in its products, while introducing technical advances and improvements. In the last analysis, it has overcome competitive difficulties through good management.

The Investor Must Keep Current

A number of other instances could be cited, showing widely varying earnings trends, due to competitive conditions, costs, products and other factors. Above all, able management is usually the dominant factor. The investor must continually sit in judgment on the securities that he owns and keep his mind alert for changes in trends.

In the rayon industry, which has been in a depressed condition for several years, sales of **Celanese Corp. of America,** for the first quarter of this year, were 5% higher than a year ago but, notwithstanding the gain in sales, earnings declined to 23¢ per share of common stock, from the 30¢ reported for the first three months of 1957. On the other hand, sales of **American Viscose** declined 23% in the initial period of this year from a year ago, and earnings dropped from 85¢ to 13¢ per share. The first quarter sales gain of Celanese arose from higher volume in textiles and plastics, which more than offset somewhat lower volume in chemicals. American Viscose attributed its decline in earnings to reduced operations and "lower prices for rayon and acetate". It has been known in the trade that, in recent months, major rayon producers were selling their yarns below official list prices. The outlook for these two stocks is still clouded.

Another example of contrasting results may be found in the cyclical and competitive cement industry. For instance, **Alpha Portland Cement** reported a first quarter deficit of 16¢ per share, as against a 34¢ profit a year ago. Sales were down 25% in the first three months of this year. In contrast, sales of **General Portland Cement** declined only 8% in the first quarter from a year ago and earnings held relatively well at 79¢ per share, compared with 91¢ in the initial 1957 period. Thus, the decrease in earnings was limited to 13%. Cement is a bulk product, with plant location determining marketing areas, which in turn differ as to competition and demand for the product. Alpha serves consuming areas east of the Mississippi, with only one out of eight plants in the south. On the other hand, General serves growing areas in the south and southwest. It is also one of the lowest-cost cement producers.

While cement stocks may benefit from the road-building program, they carry a considerable element of risk.

Again, the sulphur industry serves to illustrate divergent trends of leading companies. First quarter earnings of **Freeport Sulphur** were moderately lower at $1.18 per share than the $1.27 reported a year ago. Sales of the company are not available. In addition to sulphur, it has important oil, potash, nickel and cobalt interests. On the other hand, first quarter profits of **Texas Gulf Sulphur** declined to 35¢ from 56¢ a year ago, thus continuing the downward trend of earnings that started in 1956. The company has suffered from price competition created by low-cost Mexican production and increasing secondary recovery of sulphur. While sales are not published, it was officially stated that they were 10% to 12% lower in the first quarter than a year ago. The quarterly dividend was reduced from 50¢ to 25¢ per share with the December payment.

The sulphur industry, and particularly Texas Gulf Sulphur, still present an uncertain outlook.

Favorable First Quarter Results

In our May 10th issue, discussing first quarter reports both good and bad, we gave a number of examples of companies with an upward earnings trend. As stated, these companies sell products in daily use by the consumer, usually of a necessity nature or in continuous demand, even in a business recession. Several additional examples of such companies can be given in this article.

For instances, first quarter earnings of **Procter & Gamble** increased to 96¢ *(Please turn to page 284)*

AIRLINE OUTLOOK STILL FOGGY

BY JOHN R. DONOVAN

A critical period looms in the air transport industry's long-range development as preparations are made for the impending transition to modern jet equipment. The most formidable financing program ever undertaken by domestic airlines must be confronted over coming months if the changeover from propeller-driven craft is to be successfully completed in the next few years. The problem has been intensified by rapidly rising operating costs and a reluctance on the part of regulatory authorities to grant what the industry regards as adequate rate relief.

Because of the threatened squeeze on finances as the time approaches for vital decisions on the jet program, investors have evidenced concern over the outlook for representative companies in this group even though ultimate growth and development of air transportation can be expected to find reflection in higher appraisals of airline issues. Although the modest temporary rate increase granted by the Civil Aeronautics Board last February helped finances to some extent, it fell far short of industry hopes and was less beneficial than it might have been if the award had been approved at the time application was made a year ago. Declining traffic and adverse weather conditions minimized benefits in the initial quarter this year, when revenues and earnings continued the decline that gained momentum last year.

Decision On Rate Structure

The forthcoming C.A.B. decision on fares appears to hold the key to the airlines' success in implementing their jet program. The regulatory board announced a year ago its intention to undertake a thorough study of the industry's rate structure, the first full-scale investigation ever attempted. Results of the inquiry are expected to be handed down this year, and Washington observers have indicated a possible decision before July. Industry executives have expressed the belief that if rising costs, expansion plans and other needs are fully taken into account, the board will grant another rate increase. Some managements indicated that requests for an increase of 15 to 18 per cent should have been considered when the board authorized an approximate 6%, an interim advance effective February 10th. A boost of 15% to 18% magnitude would be in line with fare increases already granted to railroads and would help counteract rising operating costs.

Change-Over To New Jets

Problems confronting managements may be better appreciated by a brief survey of obligations being undertaken in replacement of present flying equipment with faster and more commodious planes. At the end of 1957, scheduled airlines had on order 474 new aircraft to be delivered at intervals between 1958 and 1961. Of these, 230 were pure jet planes, on which deliveries are to begin late this year, and 167 turbo-props and 70 piston aircraft, most of which are expected to be delivered this year and next. Seven helicopters were on order. An investment of $2.5 billion or more is represented by these orders. It has been estimated that by the beginning of 1960 about 30 per cent of traffic will be handled by turbine-powered craft. Civil Aeronautics Administration studies indicate that, with improvement in facilities, domestic volume may reach 93 million passengers by 1965, or almost twice the 1957 traffic.

Financing arrangements have been fairly well advanced by major carriers in undertaking purchases of new equipment. It has been estimated that borrowings from financial institutions may approximate $1.4 billion and that as much as $600 million may be realized from the sale of depreciated equipment.

Passenger Fares

To meet a seeming gap between estimated costs and funds now probably in sight, major operators are counting on improvement in earnings both as a source of funds and as a means of improving credit standing. For this reason higher rates appear necessary. Basis for arguments that fares still are inadequate is found in the fact that introduction of coach service and cut-rate plans in recent years has eroded the fare structure and actually held down "average" fares to a net increase of less than 2 per cent until the board approved the February upward revision of 4 per cent plus a $1 ticket service charge, affording an estimated average rise of somewhat more than 6 per cent.

Coach fares averaged about 4.3 cents a mile before the advance earlier this year. This compared with about 6 cents a mile for first-class service. On so-called excursion fares, Monday through Thursday, transcontinental rates dropped to an average of about 3.2 cents a mile, prior to the recent upward adjustment. Hence on the average, fares had dropped by 1956-57 to about 5.3 cents a mile, according to industry calculations, or some 9 per cent under the 1949 figure, when coach traffic was negligible.

With the benefit of higher fares, it is estimated by industry sources that the profit margin for 1958 may approximate 2.61 per cent compared with 1.9 per cent for 1957 and 7 per cent in 1952. Estimated gross revenues, still in an uptrend, are expected to range well above $1.4 billion, or about double the $768 million of five years earlier.

Longer Term Growth

Looking to the longer-term future, one may visualize extensive growth in the jet age—and it is not difficult to enthuse over the prospect for a boom in air travel, say, in the latter half of the decade beginning in 1959, when jet transports presumably will be in operation between the Atlantic and the Pacific Coasts. Whether or not such an expansion in traffic as can be envisioned will mean commensurate profits for the airlines is (*Please turn to page* 282)

Statistical Data on Leading Airline Companies

	Earnings Per Share				Dividends Per Share				
	Year 1956	Year 1957	1st Quarter 1957	1st Quarter 1958	1956	1957	Recent Price	Div. Yield	Price Range 1957-1958
American Airlines	$2.40	$1.08	$ .12	$ .12	$1.00	$1.00	18	5.5%	24⅛-14
Braniff Airways	.64	.59	.08	.14	.60	.60	9	6.6	11½- 6½
Capital Airlines	[d]1.38	[d]3.16	[d]2.06	[d]1.61	......	......	15	......	26⅜- 9⅞
Delta Air Lines	4.70[1]	2.31[1]	1.37[2]	.30[2]	1.20[3]	1.20	17	7.0	28¾-15⅛
Eastern Airlines	5.17	3.20	1.14	.74	1.00[3]	1.00[3]	32	3.1	51¾-27
National Airlines	4.14[1]	3.00[1]	2.25[2]		1.00	[4]	14	......	30 -13¾
Northwest Airlines	2.18	3.56			.80	.80	14	5.7	17⅝- 9⅜
Pan Amer. World Airlines	2.31	1.35	[d] .24		.80	.80	15	5.3	19⅛-12⅛
Trans World Airlines	[d] .70	[d] .23	[d]1.84	[d]1.66	......	......	12	......	20¼- 9¼
United Air Lines	4.57	2.28	.11	[d] .11	1.50	.50[3]	26	1.9	43¼-18⅛
Western Air Lines	3.01	2.83	.48	.6	.80[3]	.80[3]	20	4.0	25¾-17½

[d]—Deficit. [1]—Year ended June 30. [2]—9 months ended March 31, 1957 & 1958. [3]—Plus stock. [4]—Paid 5% in stock thus far in 1958.

American Airlines: Pressure of union representatives for wage increases at time when rising costs tend to restrict profit margins poses problem for management. Safety margin for $1 dividend appears in jeopardy.

Braniff Airways: Enlargement of domestic route system from Middle West to Atlantic Coast strengthens competitive position for longer term growth but inroduces higher operating costs and equipment expenditures.

Capital Airlines: Earnings temporarily handicapped by high depreciation charges and unfavorable prospects for sale of outmoded equipment. Keen competition and rising costs pose problem. Short haul routes also a handicap.

Delta Air Lines: Further decline in earnings indicated for fiscal year ending June 30 in reflecting increased costs incident to expansion of routes to new areas. Uncertain outlook explains recent dividend omission.

Eastern Airlines: Award of competitive routes having adverse effect on traffic between New York and Miami, most profitable service area. Change ordered by C.A.B. in depreciation policy expected to boost earnings this year.

National Airlines: Financing new equipment purchases may pose problem, but management has decided to conserve cash in anticipation of later needs. Lower earnings indicated for fiscal year ending this June.

Northwest Airlines: Despite progress in developing traffic on short-haul domestic routes, low density factor on international run continues a handicap. Indications point to adequate earnings coverage for 80c dividend.

Pan American World Airways: Keen competition for trans-Atlantic business and less satisfactory outlook for sale of fully depreciated equipment suggest little improvement in 1958 earnings, but dividend appears secure.

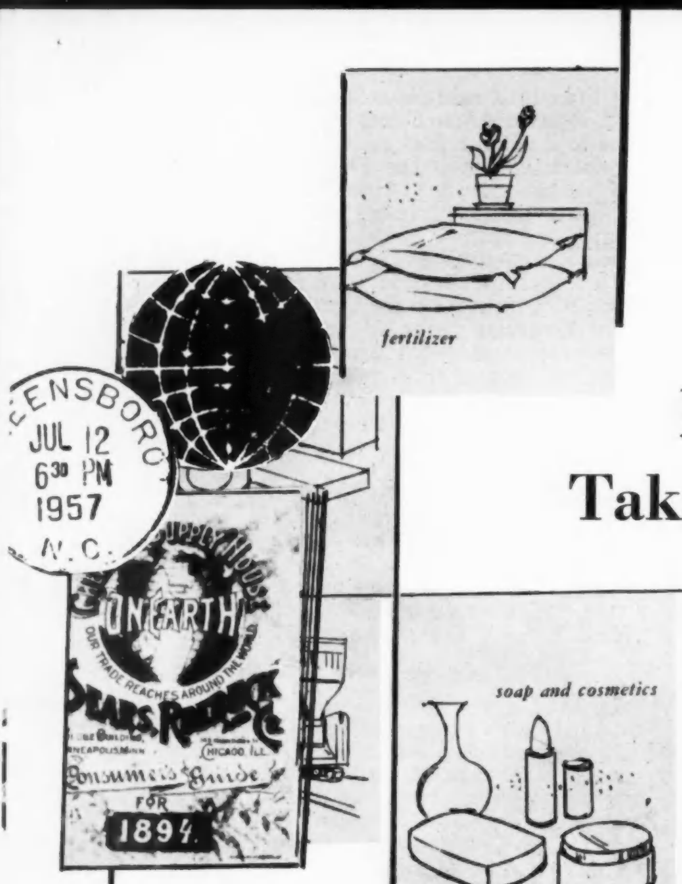
Trans World Arlnes: Despite promising outlook for long-term expansion in overseas travel, profitable operations are regarded as unlikely for near term. Purchase of modern jet planes may pose financing problem.

United Air Lines: Although little if any improvement is anticipated in 1958 earnings, prospects appear to have improved moderately. Need for conservation of capital to finance jet equipment indicates conservative dividend.

Western Air Lines: Another protracted labor dispute points to unfavorable 1958 showing even though enlargement of service area had held out promise of growth. Expansion of fleet for new routes may strain finances.

RATINGS: **A—Best grade.** **B—Good grade.** **C—Speculative.** **D—Unattractive.**

1—Improved earnings trend. **2—Sustained earnings trend.** **3—Lower earnings trend.**



Sears, Roebuck and Montgomery Ward Take the Initiative

— At Last — A Realistic Approach to Sales

— A comparative study of the position of these two companies — their sales — finances and 1958 prospects

By HAROLD B. SAMUELS

As the recession deepens, we have been subjected to a rash of panaceas, ranging from tax cuts through massive government spending to reverse the downward trend of the economy. Almost lost in the shouting are the time-tested methods of stimulating business, but at last, two of America's leading innovators have taken the bull by the horns and approached the problem in the only way that makes sense. Both Sears-Roebuck and Montgomery Ward, who between them account for an enormous percentage of consumer sales, have lowered prices and taken other steps to stimulate buying.

In its recently released Spring mail order catalog, Sears announced its second successive price drop, this time of 10 per cent on various items, and Montgomery Ward followed suit. In addition, both stores have eased credit terms, and have stepped up their sales effort through more attractive displays, live demonstrations of their wares and professional instruction in home care, lawn care and similar problems.

For investors, the most encouraging aspect of this new development is the unanimity with which the two companies are approaching the present recession, for in the past their policies have often been sharply divergent.

At the close of World War II, for example, the managements of these two companies sat down to ponder the post-war era, and came to diametrically opposite conclusions. Montgomery Ward, sharply cognizant of the near disaster of its ill-timed expansion of the late nineteen twenties decided to meet the pent-up demand of the immediate post-war years with its existing facilities, and postpone further expansion until the "inevitable" depression dissipated itself. Sears-Roebuck, on the other hand, embarked on an immediate expansion program in the firm conviction that a depression, if it did occur, would be short-lived.

The results of these two equally honest and soul-searching decisions is written in the simplest financial statistics of both companies. In the first five

post-war years, each company enjoyed booming business as a population held in check by four years of war gorged itself on hard and soft goods. In those years, Sears advanced faster than Montgomery Ward, but both companies were extremely profitable. But it is in the second post-war decade that the real impact of the disparate strategies is most noticeable. From 1950 on, Montgomery Ward began a steady downhill slide as sales turned erratic and profit margins slipped sharply. Whatever Montgomery Ward lost, seems to have gone into the Sears pocket, as that company's sales and earnings continued steadily upward. The table on page 264 adequately summarizes the performance of both companies and delineates the sharp changes in fortunes after 1950.

Aside from the financial aspects, the different strategies led to other and just as basic disparities between the two companies. Sears, throughout the post-war era has constructed a nationwide network of efficient and ably managed modern stores, often ideally located to take best advantage of the American exodus to the suburbs. At the same time Montgomery Ward spent most of its efforts retrenching. Until late 1955 little was done in the way of modernization, and in fact, numerous store locations were abandoned at the very time when more aggressive retailing organizations were successfully establishing themselves in the same areas.

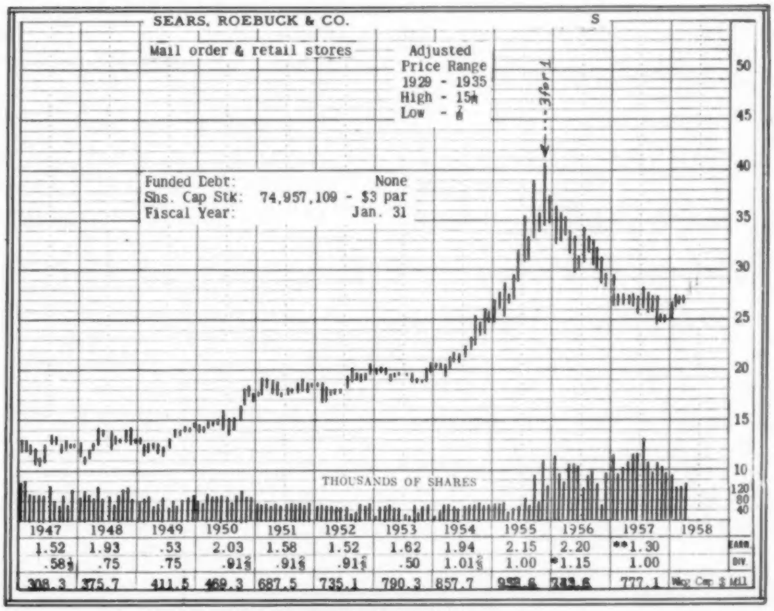
A Giant Stirs

The above is past history, however. What is of greater significance for investors, and for Montgomery Ward, is the new look the company has taken on since the knock-down, drag-out fight for control in 1955 between the forces of Sewell Avery, who had guided Ward's affairs since 1932, and Louis Wolfson, the maverick financier. Wolfson, a master at gaining control of asset-rich companies entered this fight undergunned and lost, but in the wake of the struggle Avery resigned as head of the company and was replaced by a more youthful managerial contingent headed by John A. Barr. An immediate revamping program was begun, financed by the mammoth cash reserves Mr. Avery had built up during the years of retrenchment. But ironically, Ward's new look began on the very eve of the most serious business setback the economy has suffered since the war. Only time will tell whether the company has "missed the boat", or not.

How Ward's Got That Way

Montgomery Ward was the first mail-order retailing company in the United States. From 1872, when it was organized, until the early nineteen twenties it stuck to its last, and then in 1921 opened its first retail store. At first, store operations remained a minor part of the business, but between 1927 and 1930, encouraged by the lush prosperity of the years following World War I, over 550 stores were opened in small cities and towns across the nation.

The company's reluctance to risk repeating this serious mistake is readily understandable, for it



*Plus stock dividend. **9 months.

Long-Term Income Data

	Montgomery Ward				Sears-Roebuck			
	Sales (000 $)	Net Income (000 $)	Earn Per Sh. ($)	Profit Margin	Sales (000 $)	Net Income (000 $)	Earn Per Sh. ($)	Profit Margin
1946	974	42.28	3.14	9.6	1,612	100.1	1.40	10.8
1947	1,158	59.05	4.43	9.1	1,981	107.7	1.50	10.6
1948	1,212	68.23	5.14	9.7	2,296	137.2	1.91	10.8
1949	1,084	47.79	3.56	7.8	2,168	108.2	1.51	9.0
1950	1,170	74.16	5.59	12.2	2,556	143.6	2.01	12.5
	*	*	*	*	*	*	*	*
1951	1,106	54.34	4.07	10.4	2,657	111.9	1.56	10.9
1952	1,084	49.59	3.70	9.1	2,932	110.2	1.50	10.0
1953	999	41.20	3.06	8.7	2,981	117.8	1.61	9.7
1954	887	35.23	2.60	8.3	2,965	141.3	1.92	10.0
1955	969	35.44	2.62	7.9	3,306	158.7	2.15	10.7
1956	1,045	35.84	2.65	7.4	3,555	164.8	2.20	10.1
1957	1,073	29.70	2.21	6.0	3,600	161.0	2.15	10.0

had been costly. When Sewell Avery took over in 1932 he inherited a company that had lost almost $15 million from operations in the past two years, and had been forced to write down another $10 million in assets. By stringent financial measures and sound managerial practices, Mr. Avery rebuilt the corporation during the thirties, amassed a fortune in cash reserves and freed Ward's of many of the lease agreements that had burdened it so heavily in the bleak days of 1931-32. By 1941, the company was a healthy and virile organization with earnings of over $4.00 per share and sales of over $600 million, compared with less than $200 million in 1933.

The Sears-Roebuck Pattern

Though it bears many similarities, by virtue of the close nature of their businesses, Sears' history is considerably more dynamic, and is not characterized by the "defensive" aura that enshrouds Montgomery Ward's story. From the start, seventy years ago, Sears has been in the hands of highly imaginative officers who have shown almost uncanny insight in making the right moves at the right time. Most illustrative is its retail expansion in the twenties. While Ward was keying its operations to a population of rural shoppers, Sears recognized that the youth of the country, its most important potential customers, were leaving the farm to seek their fortunes in the nation's industrialized cities. Without a doubt, the company was among the first to recognize this basic change in the pattern of American life, and chose to follow its future market to the cities. That it took fortitude is obvious, since at the time Sears' mail-order business was booming as never before. Nevertheless, this well-timed decision, risky and visionary at the time, has been the making of the company. For today, over 75 per cent of its revenues stem from retail store operations.

In a similar vein, Sears was among the first major companies to embark on a vertical integration program, recognizing, in the words of E. P. Brooks, a former vice-president who is now dean of the School of industrial management at M.I.T., that: "What the consumer in the mass wanted in the way of goods . . . quality . . . and price, could be had only by a synthesis of distribution methods, merchandising thought, planning far ahead, manufacturing conversion, and the very selection of the basic raw materials themselves."

Of more recent vintage, is the fateful and prosperous decision Sears made at the end of World War II. To appreciate the perspicacity of the Sears management it is worth noting that the decision to expand in the post war era is not nearly as significant as the manner in which it grew. Complete new lines of products, especially consumer durables such as washing machines and refrigerators, accurately gauged the character of the post-war pattern of consumer demand, and Sears got there "fustest with the mostest". Moreover, Sears took the lead in encouraging manufacturers to turn out attractively styled "modern" looking equipment that would appeal to a new generation of shoppers. As a result consumer durables added more to Sears' post-war sales than any other item, and the company enjoyed the most prosperous period in its history.

Constant Planning

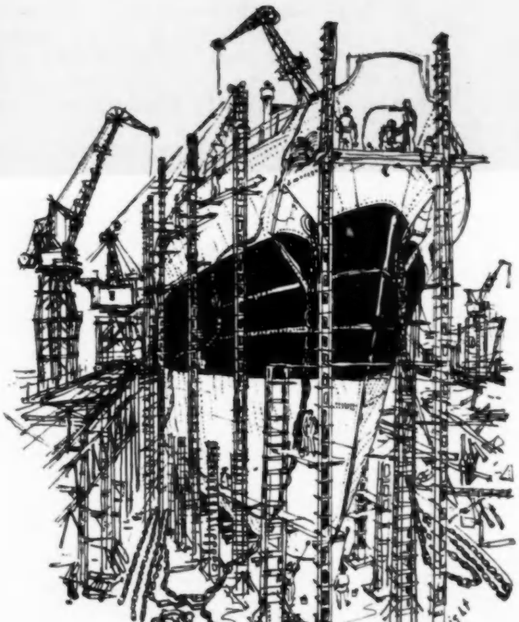
Despite its enviable growth since World War II, Sears' expansion has been well controlled. Capital investment has been confined to approximately half of retained earnings plus depreciation charges in any one year. As a result, the company's finances have been kept in excellent shape and a high degree of liquidity has been maintained. At the end of January 1958 cash items totaled $203 million against total liabilities of only $369 million. Working capital at $777 million was equal to over $10 for each share of stock in the company.

Expansion, however, has not been confined to a mere extension of its existing business. In 1947, the Sears management reached another of its fateful decisions, and decided that the untapped markets of the other American countries offered an enormous avenue of growth. In February 1947 a store was opened in Mexico City, inaugurating this new phase of Sears' business. Since then 59 stores and 15 sales offices have been opened in nine countries, and sales from foreign operations have jumped from $14.7 million in 1947 to over $100 million in 1957. There are no restrictions on dividend payments in any of the countries served, but so far Sears has followed a policy of reinvesting most of the earnings from foreign operations. (*Please turn to page* 287)

Contrasts in 1958 Prospects

—Some Stability for Ship Builders
—Mixed Prospects for Shippers

By MARVIN S. RAPHAEL



THE future outlook for our domestic shipyards now again appears to be more favorable. The long-term potential seems to be healthier than the industry has usually enjoyed in it's peacetime history. This is important because the low-cost Japanese shipyards are suffering a decline in building at this juncture. Of course, the main benefit will come from the government's $3 billion long-term replacement program of the major United States shipping lines.

Much impetus was given to U.S. shipbuilders with the closing of the Suez Canal late in 1956. An extensive tanker program was embarked upon by oil companies and independent operators. However, with the opening of Suez, much of the bloom went out of the tanker business. Even so, only 13 tanker orders have been cancelled despite the present depressed state of the world tanker market. The approximate $700 million tanker backlog is expected to be about completed some time in 1960, leaving yards going into 1961 without too much business.

With the cargo ship replacement program going into effect and probably spread out over 10 years or so, the domestic shipbuilding industry won't fare too badly. The government replacement program calls for the construction of about 20 cargo ships a year to cost around $220 million annually. While this is

Position of Leading Shipbuilders

		Earnings Per Share								
	Rating	Year 1956	Year 1957	1st Quarter 1957	1st Quarter 1958	Dividends Per Share 1956	Dividends Per Share 1957	Recent Price	Div. Yield	Price Range 1957-1958
American Shipbuilding	B3	$5.62[1]	$[d]6.98[1]	$[d]3.14[2]	$[d]3.46[2]	$3.00	$3.00[4]	67	....	97⅜-48¾
Bath Iron Works	B2	6.71	5.11	n.a.	n.a.	2.60	3.60	50	7.2	71⅜-39¼
Bethlehem Steel	A3	3.83	4.13	1.24	.52	2.12	2.40	40	6.0	50⅝-33⅜
Newport News Shipbuilding	B2	2.13	4.00	[3]	[3]	1.25	2.00	38	5.2	44¾-33¾
New York Shipbuilding	C3	2.25	2.17	[3]	[3]	.....	1.40	28	5.0	54½-18⅛
Todd Shipyard Corp.	B2	7.07[5]	18.46[5]	[3]	[3]	4.00	5.75	121	4.7	163¾-79

[d]—Deficit.
n.a.—Not available.

[1]—Fiscal year ended June 30.
[2]—6 months ended Dec. 31, 1956 & 1957.
[3]—Companies do not issue quarterly reports.

[4]—1958 div. action deferred.
[5]—Years ended March 31.

RATINGS: A—Best grade.
B—Good grade.
C—Speculative.
D—Unattractive.

1—Improved earnings trend.
2—Sustained earnings trend.
3—Lower earnings trend.

not really too many vessels when one considers that there are 7 major yards in the country with over 45 building ways, it should give this boom or bust industry a measure of much needed stability over the next several years.

Thus far, under the government's ship replacement program, 15 cargo ships have been ordered, aggregating about $170 million. The building of these ships is just the beginning of this massive program designed to substitute faster, more modern vessels for our aging merchant fleet. Of importance, of course, is the U. S. Government's role in this program. Without the government we would have no merchant fleet. Through the Merchant Marine Act of 1936, the government aids the U.S. shipping industry by paying the difference between domestic operating costs and going world rates, thus allowing our people to compete in the world market. The Act also allows a construction subsidy of about 42% of total cost, to compensate for higher American costs. This subsidy program insures national defense, keeps a private industry in being and guarantees our producers an adequate and reliable means of getting their products to competitive world markets.

New Naval Program

One of the main factors in the shipbuilding field is Naval construction. The whole concept of Naval warfare has changed, thus making the bulk of our fleet obsolete or inadequate for modern needs. The 1958 fiscal budget includes over $1.5 billion for new ship construction and conversion. Being built or expected to be built, is a nuclear-powered aircraft carrier, three atomic submarines, plus a number of destroyers and frigates. Longer range plans in our never decreasing vigil of defense readiness is the maintenance of an active fleet of relatively constant size. This will call for the continuous replacement of older ships. Also of importance, is the new construction of vessels with facilities for launching modern weapons such as missiles and rockets.

Another major factor that should benefit both the shipping and shipbuilding industries is the development of atomic propulsion. While some way off in the distance, advances in nuclear science should make atomic-powered vessels economically feasible. The government has already ordered construction of an atom-powered ship which should be the forerunner of a large fleet, both Naval and civilian in the future.

Opening of St. Lawrence Seaway

With the completion of the St. Lawrence Seaway expected some time in 1959, the way will be opened for a great deal of commerce in the Great Lakes area. This will not only benefit shipping, but also shipbuilding to some extent. Another important aspect of both shipping and shipbuilding is the "roll-on, roll-off" type of trailerships. While this area of activity is still young, it has a tremendous potential, particularly in light of present day handling costs.

In order to see the actual benefits that are being derived from the shipbuilding program, it might be pertinent to briefly analyze the major companies in the field.

Primarily noted for its construction and repairs of Great Lakes' vessels, **American Shipbuilding** should gain a broader market for its services when the St. Lawrence Seaway opens next year. With

Position of Leading Shipping Companies

		Earnings Per Share								
	Rating	Year 1956	Year 1957	1st Quarter 1957	1st Quarter 1958	Dividends Per Share 1956	Dividends Per Share 1957	Recent Price	Div. Yield	Price Range 1957-1958
American Export Lines	B3	$9.53	$8.09	$ .80	$ .70	$1.87½	$2.00	25	8.0%	31¼-19¼
Moore McCormack Line	B2	3.02	2.63	.70	.44	1.50	1.50	19	7.8	25¼-17
U.S. Lines	B2	7.13	7.16	.82	.89	1.62½	2.00[1]	30	6.6	37⅛-22½

[1]—Plus stock.

Ratings: A—Best grade.
B—Good grade.
C—Speculative.
D—Unattractive.

1—Improving earnings trend.
2—Sustained earnings trend.
3—Lower earnings trend.

Comprehensive Statistics Comparing the Position of Leading Shipbuilding and Shipping Companies

Figures are in millions except where otherwise stated.	Shipbuilding: American Ship Building	Shipbuilding: Bath Iron Works	Shipbuilding: Newport News Shipbuilding	Shipping: American Export Lines	Shipping: Moore McCormack Lines	Shipping: U. S. Lines
CAPITALIZATION:						
Long Term Debt (Stated Value)	......	......	......	$ 15.1	$ 1.5	$ 52.1
Preferred Stock (Stated Value)	$ .1	......	......	......	......	$ 1.3
No. of Common Shares Outstanding (000)	109	419	1,600	1,200	2,294	1,695
Capitaliaztion	$ 5.2	$ 4.1	$ 20.8	$ .5	$ 34.7	$ 55.1
Total Surplus	$ 5.1	$ 15.8	$ 32.3	$ 70.4	$ 56.6	$ 82.5
INCOME ACCOUNT: Fiscal Year Ended	6/30/57	12/31/57	12/31/57	12/31/57	12/31/57	12/31/57
Net Sales	$ 23.2	$ 46.7	$177.5	$ 81.6	$ 78.3	$147.8
Deprec., Depletion, Amort., etc.	$ .4	$ .6	$ 2.1	$ 3.8	$ 4.1	$ 7.5
Income Taxes	$ .2	$ 3.3	$ 8.7	......	$ 4.7	$ 5.9
Interest Charges, etc.	......	......	......	$ .5	......	$ 1.9
Balance for Common	$ .7	$ 2.1	$ 6.3	$ 9.7	$ 6.0	$ 12.1
Operating Margin	1.5%	10.8%	......	16.0%	11.3%	13.5%
Net Profit Margin	......	4.5%	3.5%	11.8%	7.7%	8.2%
Percent Earned on Invested Capital	......	10.7%	12.0%	13.6%	6.7%	14.2%
Earned Per Common Share*	$[d] 6.98	$ 5.11	$ 4.00	$ 8.09	$ 2.63	$ 7.16
BALANCE SHEET: Fiscal Year Ended	6/30/57	12/31/57	12/31/57	12/31/57	12/31/57	12/31/57
Cash and Marketable Securities	$ .7	$ 12.1	$ 6.6	$ 11.4	$ 5.4	$ 7.2
Inventories, Net	$ 5.2	$ 1.9	$ 7.6	$ .8	$ .4	$ 1.0
Receivables, Net	$ 1.8	$ 8.4	$ 5.8	$ 8.1	$ 7.2	$ 16.4
Current Assets	$ 7.8	$ 27.5	$ 62.0	$ 19.5	$ 30.1	$ 36.3
Current Liabilities	$ 2.1	$ 13.9	$ 33.1	$ 8.9	$ 14.0	$ 21.5
Working Capital	$ 5.7	$ 13.6	$ 28.9	$ 10.6	$ 16.1	$ 14.8
Current Ratio (C.A. to C.L.)	3.7	2.0	1.8	2.2	2.1	1.6
Fixed Assets, Net	$ 4.6	$ 5.9	$ 23.3	$ 36.6	$ 50.3	$ 96.0
Total Assets	$ 12.7	$ 34.0	$ 86.3	$107.4	$123.1	$208.4
Cash Assets Per Share	$ 7.13	$ 28.90	$ 4.16	$ 9.56	$ 2.35	$ 4.20

[d]—Deficit.

*—Data on dividend, current price of stock and yields in supplementary table on previous page.

unrestricted access to the sea, it is contemplated that this company will build vessels of U. S. registry for foreign trade to service the heavily industrialized ports on the Great Lakes and adjacent areas.

What the Shipbuilders Are Doing

For the first time in the post World War II period, American Ship reported a loss last year. The loss reported in the fiscal year which ended June 30, 1957, amounted to almost $7 a share against a profit in the previous year of $5.62. In the six months period ended December 31, 1957, the company's sales advanced substantially, but a loss of $3.46 a share was reported. The red figures in the 1957 fiscal year were due to losses on a naval contract—but no explanation was given as to what went wrong. This, and the loss in the first half of the present fiscal year, is undoubtedly responsible for causing the directors of American Ship recently to defer dividend action on the common stock. While the company has gone through a bad year, it has a current backlog of about $33 million, which should extend business throughout mid-1959, and might result in better earnings, because the first half is not necessarily indicative of what could happen for the full year, since the Great Lakes fleet is laid up during the winter season, December 1 to April 15, when ship repairs and reconstruction are carried on.

Although **Bethlehem Steel** is our nation's second largest manufacturer of steel, it is also the largest domestic shipbuilder. Furthermore, Bessie makes engines for its own ships. These factors alone give it a decided competitive advantage in the shipbuilding industry. Moreover, Bessie operates 12 yards with 42 ways located on both the East and West Coasts. The company has been improving its plant facilities of recent date with a $14 million three-ship building basin, and increased ground facilities at Quincy, an extension of the Sparrow Point ways to handle big size tankers and a new pier and heavier-lift tower cranes at San Francisco. Of signifiance, is that last year Bethlehem Steel's shipbuilding division laid the keel for the U.S. Navy's first nuclear-powered surface ship, the guided missile cruiser Long Beach. The keel section was laid in the new building basin at Quincy just 15 years from the day that Enrico Fermi unlocked the secret of controlled nuclear energy. The "Long Beach" is scheduled for delivery in 1960.

As a nuclear-powered vessel it will be freed from the need of frequent refueling and will have virtually unlimited high-speed cruising radius. Much of the contents of the ship other than the reactor were designed by Bessie's Nuclear Power Branch of its Central Technical Department. Last year Bethlehem Steel delivered 16 major vessels aggregating 340,000 tons versus 8 ships (*Please turn to page* 279)

FOR PROFIT AND INCOME

Exceptions

What the stock averages do is not without some general importance and significance, but it does not make much difference to you as an individual—if you hold the wrong stocks. Stocks which remained below their 1946 highs throughout the market's huge 1949-1956 advance—and also those which remained below tops recorded as far back as 1929—are too numerous to list here. Against that, recent best levels represented new all-time highs for a smaller, but sizable, minority. Here are some representative samples: American Chicle, American Electric Power, formerly Amer. Gas & Electric, American Home Products, CIT Financial, Household Finance, Corn Products, General Foods, Procter & Gamble, Quaker Oats, Reynolds Tobacco and U. S. Gypsum. There is no mystery. The stocks are all high-grade; most have a "money-market flavor"; prospects for 1958 earnings and dividends are far better than average; long-term prospects are generally promising; and the companies are leaders in their fields. These are comforting stocks to own, if they were bought at advantageous levels. To note that fact is by no means to recommend buying them at present sharply advanced prices. No doubt better buys for capital gain can be found or will develop on market sinking spells within nearby months.

Growth

You have little chance of picking a growth stock of the future while it is unlisted and the company is little beyond its infancy stage. Among established companies it is generally easier to pick growth stocks for buying than to decide when to take profits. A shift from growth to maturity is basic, whereas a profit shrinkage is temporary if due wholly to general business recession. One of the spectacular booms of recent years has been in outboard motors. Judging by the experience of the biggest and most efficient maker (Outboard Marine), growth in sales has slowed markedly and that in profits has ceased. The evidence began to appear in the forepart of last year. Results have now been disappointing for five consecutive quarters. In the March quarter, despite a sales gain, earnings

INCREASES SHOWN IN RECENT EARNINGS REPORTS

		1958	1957
Otis Elevator	Quar. Mar. 31	$ .80	$ .73
Bestwell Gypsum Co.	Quar. Mar. 31	.87	.75
Reynolds (R.J.) Tobacco	Quar. Mar. 31	1.64	1.25
American Chicle Co.	Quar. Mar. 31	1.40	1.18
American Distilling Co.	6 mos. Mar. 31	1.85	1.63
American Encaustic Tiling	Quar. Mar. 31	.37	.29
Combustion Engineering, Inc.	Quar. Mar. 31	.51	.43
Foster Wheeler	Quar. Mar. 31	1.97	1.02
Liggett & Myers Tobacco	Quar. Mar. 31	1.44	1.29
Pfizer (Chas.) & Co.	Quar. Mar. 31	1.20	1.01

were down again from a year ago. Following repeated recommendations of the stock at low levels in the years 1954-1956, we advised selling last year before it fell out of bed from 37⅜ to 18¼. It is now around 28½. The market is still rating it as a temporarily deflated growth stock. However, resumption of strong profit growth is doubtful. Priced around 20 times likely current-year earnings, the stock is over-valued.

Opinion

Although down more than the market, chemical stocks continue to look over-priced. They still have a hangover of growth-stock allure in the minds of many people. In our view, sales will rise over the next five to ten years at a rate moderately ahead of industrial production; but the profit outlook is no better than average, and the same is so for dividends. If that is right, the fancy premium prices for the stocks, as measured by price-earnings ratios, are untenable. What has happened? The main thing is too much expansion of capacity both by the industry and by the scores of companies which, while primarily in other lines, have moved into chemicals.

Others

We doubt that oil can be considered a growth industry anymore; and expect that the stocks for a long time to come will behave more like trading-swing vehicles than dynamic investments. ... Probably electronics is overrated as a growth field at least in terms of profit potentials, due to competition among the host of small and large companies in it – some on a sideline basis – and to the uncertainty of varying Government orders, which are a vital factor in the business.... Because of excess capacity, resumption of profit growth in the aluminum field seems rather distant at best.... The same goes for the principal sections of the paper industry.... The once favored air lines became a problem industry, rather than a growth industry, some time ago. ... Whether promised sales growth in advanced office machines will be accompanied by anything like proportionate profit gains is conjectural, with competition already keen.... Long-term profit growth is assured for most utilities and probable for most drug makers—but the rub here is that the best stocks are already discounting so much of it.

Take Profits

Around 58 at this writing, Lorillard has about doubled since its impressive potentials were detailed here last December; and is up 7 points from 51 since we remarked in our April 26 issue that (from that level) it might rise somewhere between 5 and 15 points during the rest of 1958. While not extremely priced, it is high enough to justify taking profits in the vicinity of 58-60. Those who wish to wait a few weeks longer to make it a long-term gain for tax purposes (the required holding period is over six months) probably can do so without much risk. Aim to cash in on a period of strength. We see no need to sell on dips, which can come at any time.

Stock Splits

Profit trends and market levels argue against more than a comparatively few stock splits this year. But some companies are thriving, and their stocks are at or around all-time highs. So the rumor mills are grinding. American Chicle might be a possibility. Its last previous split was 3-for-1 in 1947. There is talk about a 2-for-1 for Reynolds Tobacco and a $2 dividend, equal to $4 on the present stock, against $3.60 now being paid. We would not bet on it. The last split was 2½-for-1 far back in 1929. We would bet on a dividend boost to at least $3.80. The stock has allowed for that, but remains a good income holding which might get moderately above 80 in the present environment of shrinking bond yields. There is conjecture about a 2-for-1 for Sherwin-Williams, currently at a new high around 149, with record earning power around $12 a share. The last split was 2-for-1 in 1947. However, a major portion of the shares have long been held in trust accounts and the management has shown no indications of being "market-minded." Probably a split will come, but it may be a rather extended time ahead. There is talk about 2-for-1 and a dividend boost for Warner-Lambert, currently at a new high above 69, with earnings at a record level. Our hunch is that this one may well come before long, although only "insiders" can know the thinking and leanings of management.

Farm Equipment

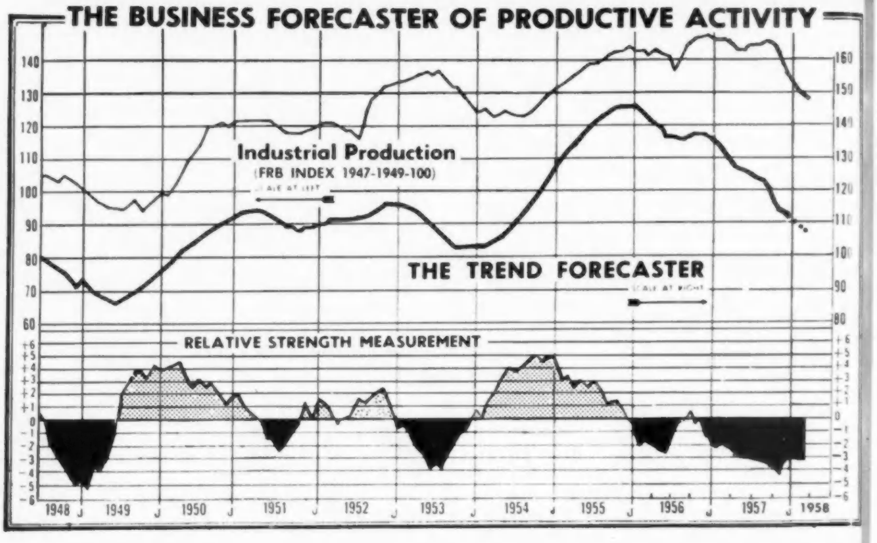
This is one business slump in which the over-all farm economy is faring relatively well, although at much less than any boom basis. Moderately increased full-year sales of agricultural machinery and implements are indicated, following a small gain last year. However, earnings of most makers of farm equipment will be down because they also make a variety of other products whose sales are in a slump. Thus, Allis-Chalmers rates as the third largest producer of farm equipment, but is more dependent on heavy electrical and industrial machinery. It recently cut its dividend rate from $2 to $1. International Harvester is about one-third in farm equipment, yet by far the biggest maker thereof. Among the leaders, Deere, second in farm equipment, comes closest to full dependance on the state of the farm economy. Earnings for the fiscal year through last October 31 rose sharply to $3.96 a share, from the depressed year-earlier level of $2.67, but remained much under the peak postwar figure of $6.76 reached as far back as 1950. With costs higher, they probably will be about maintained or slightly higher this year. At 34 in a postwar range of

(*Please turn to page* 290)

DECREASES SHOWN IN RECENT EARNINGS REPORTS

		1958	1957
Electric Auto-Lite Co.	Quar. Mar. 31	$ .41	$2.31
Fansteel Metallurgical	Quar. Mar. 31	.49	1.04
Interlake Iron Corp.	Quar. Mar. 31	.32	.77
Granite City Steel	Quar. Mar. 31	.95	1.60
Lees (James) & Sons	Quar. Mar. 31	.40	1.02
Pennsalt Chemicals Corp.	Quar. Mar. 31	.58	.81
Pittsburgh Plate Glass	Quar. Mar. 31	.51	1.34
American Smelt. & Refining	Quar. Mar. 31	.57	1.35
Motor Wheel	Quar. Mar. 31	.08	.63
Burroughs Corp.	Quar. Mar. 31	.18	.53

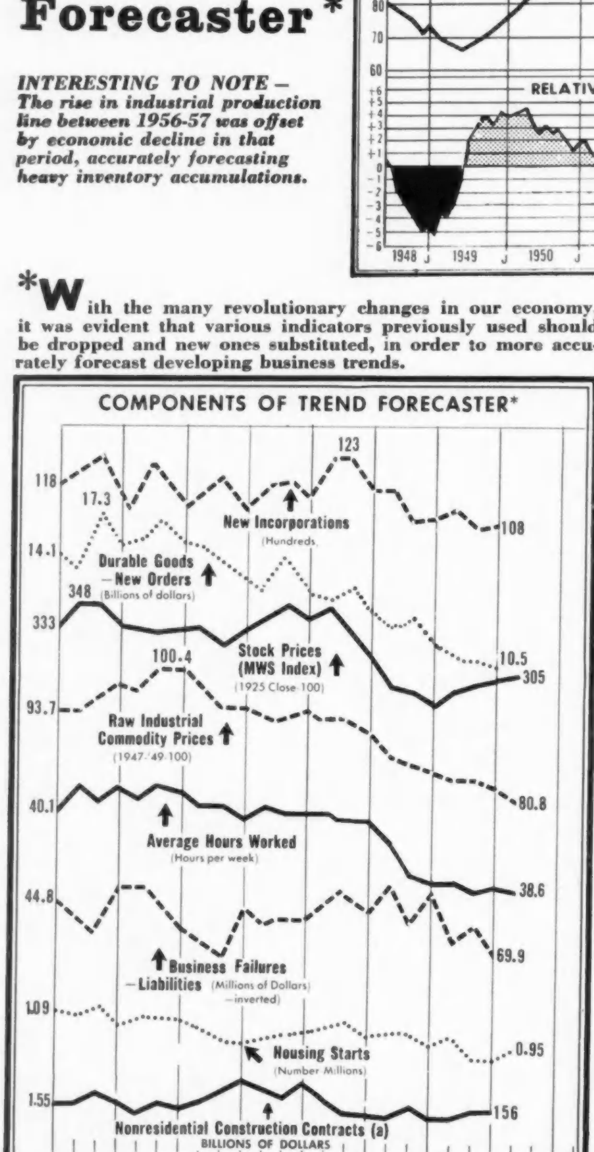
the Business



Business Trend Forecaster *

INTERESTING TO NOTE – The rise in industrial production line between 1956-57 was offset by economic decline in that period, accurately forecasting heavy inventory accumulations.

***With the many revolutionary changes in our economy, it was evident that various indicators previously used should be dropped and new ones substituted, in order to more accurately forecast developing business trends.**



(*)—Seasonally adjusted except stock and commodity prices.
(a)—Based on F. W. Dodge data. 2 month moving average. In constant dollars.

This we have done in our new *Trend Forecaster* (developed over a period of several years), which employs those indicators (see Components of Trend Forecaster) that we have found to most accurately project the business outlook.

As can be seen from the chart, industrial activity in itself is not a true gauge of the business outlook—the right answer can only be found when balanced against the state of our economy. The *Trend Forecaster* line does just that. When it changes direction up or down a corresponding change in our economy may be expected several months later.

The depth or height of the developing trend is clearly presented in our *Relative Strength Measurement* line, which reflects the rate of expansion or contraction in the making. When particularly favorable indications cause a rise that exceeds plus 3 for a period of time, a strong advance in general business is to be expected. On the other hand, penetration of minus 3 on the down side usually precedes an important contraction in our economy.

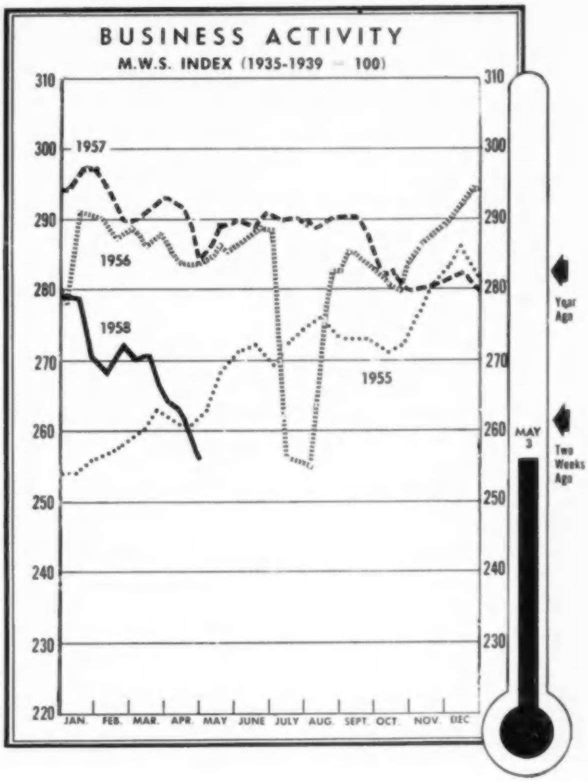
We believe that subscribers will find our Business Trend Forecaster of increasing usefulness both from the investment and business standpoints.

Current Indications of the Forecaster

Early in the second quarter, the general trend of the components of the **Forecaster** remains clearly downward. However, rates of decline in several of the series have abated. As many as three of the eight component indicators could, by a stretching of optimism, be interpreted as being in a rising phase, and the tendency of the Relative Strength Measure in the second quarter appears to be slightly upward. No broad conclusion is yet warranted on the basis of this mild and perhaps temporary improvement; in fact, the indicators still point to nothing better than sluggish stability later in the year.

Stock prices continued to strengthen in April, and housing starts showed a modest recovery from the depressed levels of February and March. Nonresidential construction contracts too, were still rising. The critical series on new orders in durables lines and average hours worked appeared to be approaching a trough in April. The remaining three series—new incorporations, business failures, and industrial raw materials all appeared still to be in a declining phase early in the second quarter. The **Trend Forecaster,** in continuing its decline, has now been in a downtrend for almost two-and-a-half years, the longest such decline in the decade covered by the series.

Analyst



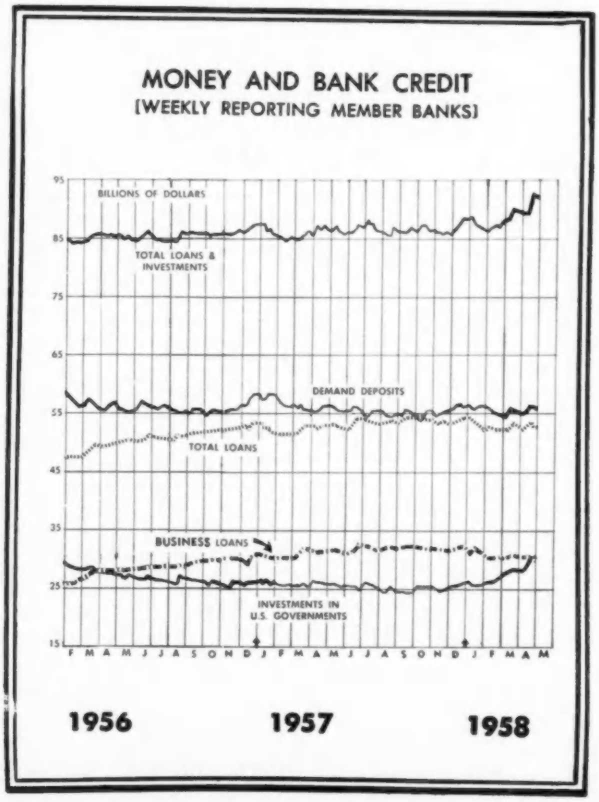
CONCLUSIONS IN BRIEF

PRODUCTION—declines now concentrated in machinery lines; raw materials declines about over, at least temporarily. Outlook: about stable at April levels, through the summer. Peak to trough decline in output now amounts to 15%, as compared to 10% in the two previous recessions.

TRADE—stability has emerged here, too. Look for nothing more than sluggish behavior through summer, with some price weakness. Reaction of buyers to price reductions should be increasingly favorable.

MONEY & CREDIT—funds now broadly available, at a reasonable price. Short-term rates are about as low as they are likely to get; further decline in long-term rates is still probable, despite firmness of past few months.

COMMODITIES—industrial commodities have shown no seasonal strength in past two months, and are now likely to weaken a bit further; farm commodities are now near seasonal peak, and may also decline. Finished goods prices continue to weaken slowly.



IN the news of the past month, it is simple enough to pull out the basic dilemma of businessmen: will there be an improvement in the general level of business in the fourth quarter of this year, and, if so, will it be substantial and lead into a new phase of rapid expansion? The answer to this question appears to hang on developments in four main areas—four sets of statistics that deserve the closest scrutiny in coming months.

First, a recovery in late 1958 will be virtually out of the question if the spending of consumers slows down any further in the next three or four months; on the other hand, it will be virtually assured if consumer spending should rise substantially in the next three or four months. Neither of these developments is at all probable; what is probable is that the rate of personal spending for goods will hang very close to the April rate, perhaps declining a little if food prices (and hence the value of food sales) should decline in the late summer.

Second, a recovery in late 1958 will be more probable if housing starts move sharply ahead in the next few months. Applications for financing a higher number of starts are already in the works; it remains to be seen whether the stimulus applied by government to financing residential building will actually increase physical activity.

Third, inventory is still pouring out of business at a rate of close to \$8 billion a year. If it continues to drain off at that rate, business shelves will be quite clean by fall, and a recovery of inventory demand is at least possible.

Finally, government spending is in a slow uptrend now; if much more pressure is applied by the administration to the outpouring of federal dollars, this form of spending

(Please turn to following page)

Essential Statistics

THE MONTHLY TREND	Unit	Month	Latest Month	Previous Month	Year Ago
INDUSTRIAL PRODUCTION* (FRB)	1947-'9-100	Mar.	128	130	145
Durable Goods Mfr.	1947-'9-100	Mar.	135	137	163
Nondurable Goods Mfr.	1947-'9-100	Mar.	124	125	131
Mining	1947-'9-100	Mar.	113	119	132
RETAIL SALES*	$ Billions	Apr.	16.4	16.1	16.4
Durable Goods	$ Billions	Apr.	5.1	5.0	5.6
Nondurable Goods	$ Billions	Apr.	11.2	11.1	10.7
Dep't Store Sales	1947-'9-100	Apr.	134	131	131
MANUFACTURERS'					
New Orders—Total*	$ Billions	Mar.	23.9	24.1	28.1
Durable Goods	$ Billions	Mar.	10.5	10.6	13.9
Nondurable Goods	$ Billions	Mar.	13.4	13.5	14.2
Shipments*	$ Billions	Mar.	25.2	25.6	28.4
Durable Goods	$ Billions	Mar.	11.7	12.0	14.2
Nondurable Goods	$ Billions	Mar.	13.4	13.5	14.2
BUSINESS INVENTORIES, END MO.*	$ Billions	Mar.	88.5	89.3	89.9
Manufacturers'	$ Billions	Mar.	52.1	52.5	53.3
Wholesalers'	$ Billions	Mar.	12.4	12.5	12.8
Retailers'	$ Billions	Mar.	24.1	24.3	23.7
Dept. Store Stocks	1947-'9-100	Mar.	143	146	150
CONSTRUCTION TOTAL	$ Billions	Apr.	3.7	3.3	3.7
Private	$ Billions	Apr.	2.6	2.4	2.6
Residential	$ Billions	Apr.	1.3	1.2	1.3
All Other	$ Billions	Apr.	1.3	1.2	1.3
Housing Starts*—a	Thousands	Apr.	950	880	962
Contract Awards, Residential—b	$ Millions	Mar.	1,071	727	1,107
All Other—b	$ Millions	Mar.	1,650	1,226	1,971
EMPLOYMENT					
Total Civilian	Millions	Apr.	62.9	62.3	64.3
Non-Farm	Millions	Apr.	50.2	50.2	52.3
Government	Millions	Apr.	7.6	7.6	7.4
Trade	Millions	Apr.	11.2	11.2	11.4
Factory	Millions	Apr.	11.3	11.6	13.0
Hours Worked	Hours	Apr.	38.3	38.6	39.8
Hourly Earnings	Dollars	Apr.	2.11	2.11	2.05
Weekly Earnings	Dollars	Apr.	80.81	81.45	81.59
PERSONAL INCOME*	$ Billions	Apr.	343	342	341
Wages & Salaries	$ Billions	Apr.	233	234	237
Proprietors' Incomes	$ Billions	Apr.	51	51	51
Interest & Dividends	$ Billions	Apr.	32	32	31
Transfer Payments	$ Billions	Apr.	25	24	21
Farm Income	$ Billions	Apr.	17	17	16
CONSUMER PRICES	1947-'9-100	Mar.	123.3	122.5	118.9
Food	1947-'9-100	Mar.	120.8	118.7	113.7
Clothing	1947-'9-100	Mar.	106.8	106.8	106.8
Housing	1947-'9-100	Mar.	127.5	127.3	124.9
MONEY & CREDIT					
All Demand Deposits*	$ Billions	Mar.	106.4	105.5	107.0
Bank Debits*—g	$ Billions	Mar.	76.4	79.5	82.7
Business Loans Outstanding—c	$ Billions	Mar.	31.0	31.0	31.4
Instalment Credit Extended*	$ Billions	Mar.	3.2	3.2	3.4
Instalment Credit Repaid*	$ Billions	Mar.	3.4	3.4	3.3
FEDERAL GOVERNMENT					
Budget Receipts	$ Billions	Mar.	9.5	6.3	10.7
Budget Expenditures	$ Billions	Mar.	5.7	5.5	5.6
Defense Expenditures	$ Billions	Mar.	3.5	3.4	3.7
Surplus (Def) cum from 7/1	$ Billions	Mar.	(3.4)	(7.2)	(1.4)

PRESENT POSITION AND OUTLOOK

could well be a pronounced stimulant by the Fall.

Optimists are now putting these potential strengths together in a way that spells a fairly sharp recovery late in the year. **The Magazine of Wall Street is willing to accept the possibility of such a recovery, but it is still far from convinced. The evidence now available does not point to a pronounced improvement in business in 1958, but at most a levelling off in the last half of the year.**

* * *

UNEMPLOYMENT—beyond the publicity-conscious releases of the Administration on the "improvement" in the unemployment situation lie a few uncomfortable but important facts. Unemployment has not enjoyed its usual seasonal recovery this spring; in the late spring, when college students (and some high school graduates, and some teachers) pour into the labor market to compete for jobs, the level of unemployment is bound to mount considerably further, and **it is a good guess that in the early summer an unemployment figure in the range of six million will be released.** This may come as a shock to the casual newspaper reader, who has been told that unemployment fell in April, and is now beginning to clear up. It may also come as something of a shock to consumer markets generally, if it induces further uncertainty among consumers.

* * *

HOUSING—the news is getting brighter in this key sector. The starts rate turned up, as expected, in April. More importantly, contract awards for residential building also seem to be in an upswing, and applications for VA appraisals and FHA commitments have climbed sharply since interest rates on these mortgages have come closer to realistic levels. In 1949 and again in 1954, housing helped to terminate the recession; the figures in this area are worth watching to see whether the favorable pattern of the past is about to repeat itself. **At issue: is housing demand present, in sufficient quantity, at current prices, even if the mortgage funds are made available?**

* * *

INSTALMENT DEBT—the total amount outstanding has been declining notably in the past few months—faster than at any time in the postwar years. Whereas total consumer instalment indebtedness was rising at an annual rate of about $1 billion in the fourth quarter of 1957, it was falling at a $2-billion rate in the first

and Trends

QUARTERLY STATEMENT FOR THE NATIONAL ECONOMY

In Billions of Dollars—Seasonally Adjusted, at Annual Rates

SERIES	1958 I Quarter	1957 IV Quarter	1957 III Quarter	1957 I Quarter
GROSS NATIONAL PRODUCT	424.0(e)	432.6	440.0	429.9
Personal Consumption	281.0(e)	282.4	283.6	276.7
Private Domestic Invest.	53.5(e)	61.3	66.5	63.6
Net Foreign Investment	1.5(e)	2.0	3.2	4.1
Government Purchases	88.0(e)	87.0	86.7	85.6
Federal	49.7(e)	49.7	50.6	50.3
State & Local	38.3(e)	37.3	36.1	35.3
PERSONAL INCOME	342.3(e)	345.5	346.9	338.3
Tax & Nontax Payments	43.0(e)	43.4	43.6	42.2
Disposable Income	299.3(e)	302.1	303.3	296.1
Consumption Expenditures	281.0(e)	282.4	283.6	276.7
Personal Saving—d	18.3(e)	19.8	19.7	19.5
CORPORATE PRE-TAX PROFITS			41.8	43.9
Corporate Taxes			21.3	22.4
Corporate Net Profit			20.4	21.5
Dividend Payments			12.6	12.4
Retained Earnings			7.8	9.1
PLANT & EQUIPMENT OUTLAYS	34.0(e)	36.2	37.8	36.9

THE WEEKLY TREND

	Unit	Week Ending	Latest Week	Previous Week	Year Ago
MWS Business Activity Index*	1935-'9-100	May 3	256.0	257.3	283.3
MWS Index—per capita*	1935-'9-100	May 3	191.6	192.6	216.2
Steel Production	% of Capacity	May 11	49.4	47.8	86.7
Auto and Truck Production	Thousands	May 10	104	106	160
Paperboard Production	Thousand Tons	May 3	246	236	272
Paperboard New Orders	Thousand Tons	May 3	287	224	381
Electric Power Output*	1947-'49-100	May 3	226.3	223.9	226.7
Freight Carloadings	Thousand Cars	May 3	533	534	719
Engineering Constr. Awards	$ Millions	May 5	381	486	385
Department Store Sales	1947-'9-100	May 3	132	136	143
Demand Deposits—c	$ Billions	Apr. 30	55.7	56.4	56.2
Business Failures	Number	May 1	336	329	297

PRESENT POSITION AND OUTLOOK

quarter of 1958. The debt is still far from low—in fact, it's still above its level of early 1957; but the reversal of trend is nonetheless significant. At long last, the consumer sector is seriously working at digesting and controlling the prodigious volume of new debt of the postwar years. It is learning a new attitude toward debt, and its just as well that the lesson is being learned now. If the present rate of correction in instalment debt outstanding continues throughout the year, a much healthier basis for future sales of automobiles, furniture and appliances will doubtless have been laid.

* * *

STEEL OUTLOOK—according to figures from many sources, it is evident that steel inventories are now falling at about the fastest rate on record. Here, as in instalment debt, a major correction is under way, and the result will doubtless be a healthier steel market when it is over. Query: when will it be over? Despite understandably optimistic statements on the part of industry leaders, analysts of steel markets expect no surge of new business in 1958, but a modest recovery, to perhaps 65% of capacity by late in the year. That would put total ingot tonnage in 1958 at about 75,000,000 tons, compared to about 115,000,000 tons in recent earlier years. **But the inventory correction certainly suggests a definitely better steel year in 1959.**

*—Seasonally adjusted. (a)—Private starts, at annual rates. (b)—F. W. Dodge unadjusted data. (c)—Weekly reporting member banks. (d) Excess of disposable income over personal consumption expenditures. (e)—Estimated. (f)—Estimated by Council of Economic Advisors. (g)—337 non-financial centers. (na)—Not available. (r)—Revised. Other Sources: Federal Reserve Bd., Commerce Dept., Securities & Exch. Comm., Budget Bureau.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEXES

No. of Issues (1925 Cl.—100)	1958 Range High	1958 Range Low	1958 May 2	1958 May 9
300 Combined Average	318.6	283.9	314.3	318.6H
4 Agricultural Implements	234.7	196.5	234.7	234.7
3 Air Cond. ('53 Cl.—100)	106.8	87.8	101.6	106.8H
9 Aircraft ('27 Cl.—100)	1070.6	982.2	1051.0	1060.8
7 Airlines ('27 Cl.—100)	727.5	638.8	721.6	721.6
4 Aluminum ('53 Cl.—100)	309.1	253.4	278.7	283.8
6 Amusements	147.6	125.0	144.0	147.6H
8 Automobile Accessories	313.2	298.9	307.5	313.2
6 Automobiles	47.6	40.8	45.7	47.6H
4 Baking ('26 Cl.—100)	34.0	28.5	33.8	34.0H
4 Business Machines	984.6	898.2	941.4	984.6H
6 Chemicals	545.5	509.5	535.2	545.5H
5 Coal Mining	21.7	18.4	21.0	21.7H
4 Communications	97.4	85.7	95.8	97.4
9 Construction	122.1	107.5	118.0	118.0
7 Containers	858.4	707.3	858.4	858.4
7 Copper Mining	223.0	184.6	212.0	206.6
2 Dairy Products	130.5	115.6	129.4	130.5H
6 Department Stores	93.9	78.9	93.1	92.4
5 Drugs-Eth. ('53 Cl.—100)	280.3	217.2	280.3	280.3
6 Elec. Eqp. ('53 Cl.—100)	207.2	195.8	199.6	205.3
2 Finance Companies	635.7	568.8	630.1	635.7
6 Food Brands	303.1	255.5	305.6	303.1
3 Food Stores	220.5	182.2	218.6	220.5H

(Nov. 14, 1936 Cl.—100)	1958 Range High	1958 Range Low	1958 May 2	1958 May 9
100 High Priced Stocks	210.9	189.7	208.6	210.9H
100 Low Priced Stocks	384.5	334.7	378.2	384.5H
5 Gold Mining	757.1	530.5	741.6	736.5
4 Investment Trusts	156.8	144.4	156.8	156.8
3 Liquor ('27 Cl.—100)	1047.7	913.4	1003.0	1047.7H
8 Machinery	374.7	343.8	354.1	361.0
3 Mail Order	182.5	143.3	175.8	182.5H
4 Meat Packing	149.0	123.6	146.8	146.8
5 Metal Fabr. ('53 Cl.—100)	161.1	138.1	140.8	138.1L
9 Metals, Miscellaneous	305.2	276.3	292.0	299.9
4 Paper	934.4	841.8	917.6	934.4H
22 Petroleum	726.1	629.7	713.3	726.1H
21 Public Utilities	289.6	258.9	289.6	289.6
7 Railroad Equipment	68.0	59.2	66.9	68.0H
20 Railroads	49.6	43.0	48.8	49.6H
3 Soft Drinks	541.8	445.6	537.4	541.8H
12 Steel & Iron	273.3	249.3	263.7	268.5
4 Sugar	119.5	102.8	114.6	119.5H
2 Sulphur	683.3	543.4	651.0	683.3H
10 Television ('27 Cl.—100)	33.7	28.8	33.2	33.7H
5 Textiles	121.6	106.9	116.7	119.7
3 Tires & Rubber	160.9	142.3	147.0	147.0
5 Tobacco	138.6	110.9	135.4	138.6H
2 Variety Stores	285.4	239.3	281.0	285.4H
17 Unclassif'd ('49 Cl.—100)	166.0	145.4	161.9	164.6

H—New High for 1958. L—New Low for 1958.

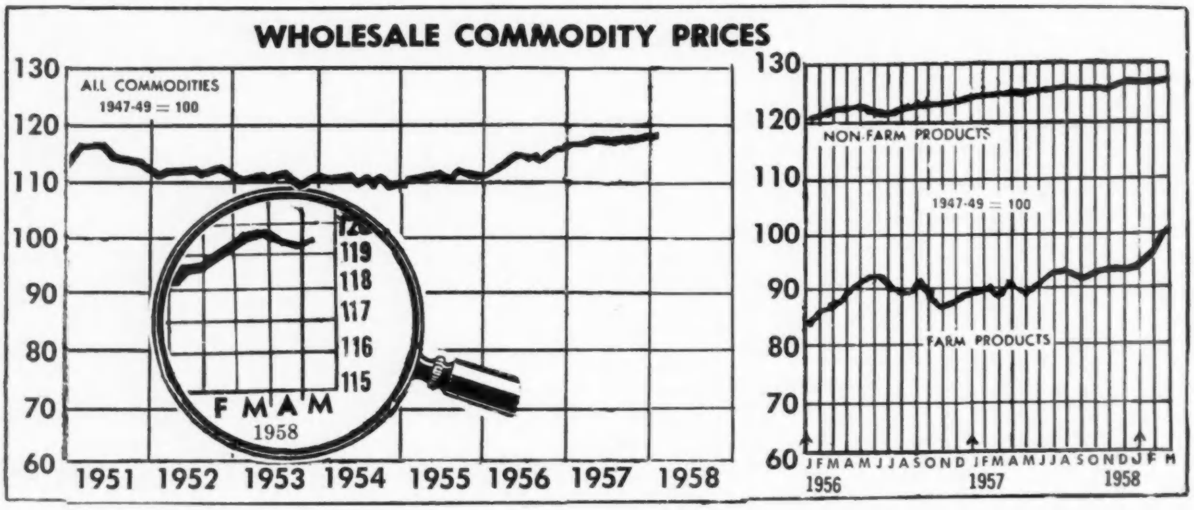
Trend of Commodities

SPOT MARKETS—The BLS price index of 22 sensitive commodities rose smartly in the two weeks ending May 9, ending the long downward slide since mid-March. The index gained 1.2% in the latest period to close at 85.1% of the 1947-1949 average. Both foods and raw industrial materials participated in the advance, the former adding 1.2% and the latter 1.1% higher. Among industrial materials, metals came to the fore while textiles posted moderate gains.

Meanwhile, the comprehensive wholesale price index compiled by BLS was slightly higher in the two weeks ending May 6, thanks to renewed strength in the farm and foodstuffs component. At the same time, the index of all other commodities continued to lag, in line with sluggish demand at today's high prices.

FUTURES MARKETS—Futures markets were pretty well mixed in the two weeks ending May 9. In grains, the near-month was invariably higher while later options declined. Advances were chalked up in cotton, wool tops, cocoa and copper while lower prices were registered for coffee, hides and lead.

Old crop May wheat was strong in the period under review, while new crop options all were lower. Strength in the expiring May future reflected the currently tight supply situation. The new crop on the other hand, promises to be a near record-breaker and the Departmnt of Agricultur has forecast a 1 billion bushel winter wheat crop, 43% above the 707 million bushels harvested last year. This, together with lower price supports on this year's wheat crop, continue to exert pressure on new crop futures.



BLS PRICE INDEXES 1947-49—100	Date	Latest Date	2 Wks. Ago	1 Yr. Ago	Dec. 6 1941
All Commodities	May 6	119.5	119.4	117.1	60.2
Farm Products	May 6	98.1	97.5	89.5	51.0
Non-Farm Products	May 6	125.6	125.7	125.2	67.0
22 Basic Commodities	May 9	85.1	84.1	88.1	53.0
9 Foods	May 9	91.0	89.9	81.8	46.5
13 Raw Ind'l. Materials	May 9	81.1	80.2	92.5	58.3
5 Metals	May 9	82.2	80.3	104.8	54.6
4 Textiles	May 9	75.9	75.6	83.9	56.3

MWS SPOT PRICE INDEX

14 RAW MATERIALS

1923-1925 AVERAGE—100

AUG. 26, 1939—63.0 Dec. 6, 1941—85.0

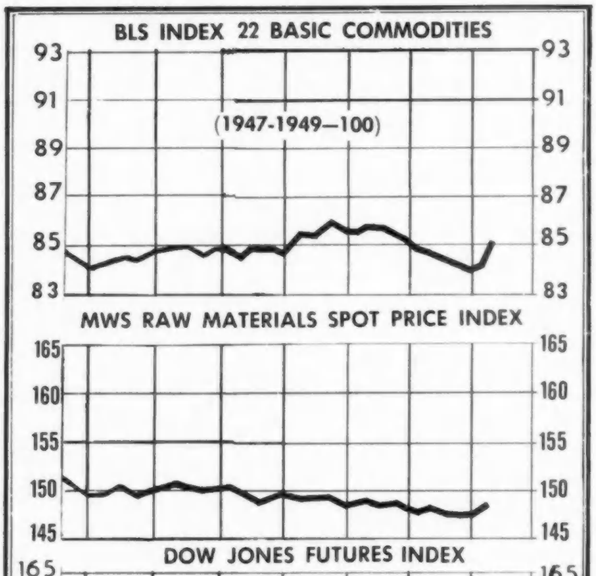
	1958	1957	1953	1951	1945	1941
High of Year	150.2	166.3	162.2	215.4	98.9	85.7
Low of Year	147.3	149.5	147.9	176.4	96.7	74.3
Close of Year		150.0	152.1	180.8	98.5	83.5

DOW-JONES FUTURES INDEX

12 COMMODITIES

AVERAGE 1924-1926—100

	1958	1957	1953	1951	1945	1941
High of Year	158.2	163.4	166.5	214.5	106.4	84.6
Low of Year	154.1	153.8	166.8	189.4	105.9	84.1
Close of Year		156.5	147.9	176.4	96.7	74.3



AMERICAN & FOREIGN POWER COMPANY INC.

REPORT of PROGRESS for 1957

HIGHLIGHTS
from our 1957 Annual Report

	1957	1956
Corporate Net Income	$ 12,577,000	$ 11,900,000
Corporate Earnings per Share	$1.72	$1.63
Common Dividends per Share	$ .95	$ .80
Consolidated Subsidiaries*:		
Operating Revenues	$ 214,735,000	$ 202,909,000
Sales of Electricity—kwh	7,024,963,000	6,332,206,000
Electric Customers	2,632,000	2,504,000
Installed Capacity—kw	1,344,000	1,221,000

**Excludes Argentina operations.*

SOUND, PLANNED GROWTH
for 1957 and beyond

Electric energy sales of the operating companies of the American & Foreign Power System increased 11% in 1957 from the previous year, reflecting continued industrial expansion and higher living standards in the areas served.

To meet rapid growth of power demand in the areas served, the System spent $88.2 million on construction in 1957, an increase of 46% over 1956. Installed generating capacity was increased 10%, and construction now in progress will add an additional 15% to capacity by the end of 1958.

More than 99% of Foreign Power's employees are citizens of the countries in which they work. Emphasis is being placed on employee training and manpower development programs throughout the System; and conferences on industrial relations, engineering and accounting were held in several countries during 1957. These activities are all designed to help the 34,000 employees of the Foreign Power System to become more efficient, better-informed, and increasingly effective in their jobs.

The knowledge that the long-term future of the Foreign Power System is intimately linked with the sound growth and development of the areas and the countries it serves is one of the fundamental guides of Company policy. This means that we recognize our obligation to promote and encourage private investment, increased diversification of agriculture and industry, and everything that contributes to sound economic development. This policy is being implemented by a broad program of advertising and publicity, both in the United States and in Latin America, and by exhibits featuring the various countries served.

As long-term investors in Latin America, we are keenly aware of the serious economic problems that currently are faced by many of the friendly and progressive countries in that area. We believe that the present tendency to place restrictions upon United States imports of essential commodities from Latin America is both ill-advised and short-sighted. Our partner republics in this hemisphere are not only reservoirs of raw materials, but of friendship; and we have drawn on both abundantly in time of need.

Utility services, principally electric, are supplied by the subsidiaries of the American & Foreign Power System to a population of more than 21,000,000 in 11 Latin-American countries.

If you would like a copy of the Annual Report, please address your request to Mr. H. W. Balgooyen, Executive Vice President & Secretary, American & Foreign Power Company Inc., Two Rector Street, New York 6, N. Y.

OPERATING SUBSIDIARIES IN

ARGENTINA · BRAZIL · CHILE · COLOMBIA · COSTA RICA · CUBA
ECUADOR · GUATEMALA · MEXICO · PANAMA · VENEZUELA

Answers to Inquiries

The Personal Service Department of THE MAGAZINE OF WALL STREET *will* answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. The service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject to the following conditions:

1. Give all necessary facts, but be brief.
2. Confine your requests to *three listed securities at* reasonable intervals.
3. No inquiry will be answered which does not enclose *stamped, self-addressed envelope.*
4. No inquiry will be answered which is mailed in our postpaid reply envelope.
5. Special rates upon request for those requiring additional service.

Federated Department Stores

"I am interested in recent developments in Federated Department Stores and what effect the present recession has had on its operations."

O. C., Clearwater, Florida

Federated Department Stores net income after taxes rose 6.2% to $24,973,512 in the 1957 fiscal year ended February 1, 1958. This compared with $23,510,924 in the preceding year.

Earnings per common share were $3.24 in fiscal 1957 against $3.16 in 1956, figured on the average number of shares outstanding in each year.

Sales rose 5.7% to $635,591,528 in fiscal 1957 compared with $601,491,511 in 1956.

The annual dividend rate was increased to $1.80 per share from $1.60 with the latest 45 cents paid April 30. In taking this action at a time when general business conditions are in a declining phase, the directors affirmed their belief in the strength of the country's economy and their belief that this dividend could be paid without retarding the growth program which contemplates continued expansion of facilities.

The company's program for growth has two major aspects. First, in those metropolitan centers where it already has stores, it is trying to expand sales by developing downtown stores and by developing suburban stores, according to the individual needs of each area as determined by studies.

Second, Federated is going to expand into other dynamic metropolitan centers when attractive opportunities for such expansion occur.

Of the $330,871,000 increase in sales during the past decade, about 56% has come from metropolitan areas where the company had stores 10 years ago and the remaining 44% from entering new metropolitan areas.

The common objectives are continued attention to alert merchandising, closer scrutiny of expenses and better customer service in order to maintain satisfactory profits in a period of more difficult business.

Despite higher wage rates and many other rising unit costs during the past six years, expenses as a percentage of sales have fluctuated in a very narrow range, and without significant net increase.

Federated Department Stores operates 42 stores and branches throughout the country and includes: Abraham & Straus, Brooklyn; Bloomingdale's, New York; The Boston Store, Milwaukee; Burdines, Miami; Filene's, Boston; Foley's, Houston; Lazarus, Columbus, Ohio; Sanger's, Dallas; Shillitos, Cincinnati; and 9 Fedway stores located throughout the southwest in the states of Oklahoma, Texas, New Mexico and California.

Management is regarded as capable and progressive.

W. R. Grace & Co.

"I am a subscriber to your most valuable magazine and I would like to receive earning data on W. R. Grace & Co."

H. C., Lima, Ohio

Operations of W. R. Grace & Co. cover a wide variety of lines and businesses in the U. S. and Latin America. Greater emphasis has been placed on the development and expansion of chemical lines in this country in recent years.

Net profits of W. R. Grace & Co. declined in 1957 for the first time in 5 years. Net income per share of common stock, based on the average number of shares outstanding and after preferred dividends, was $3.31 compared with $4.41 in 1956.

Including the company's equity in undistributed earnings of non-consolidated subsidiaries and 50% owned companies, such as Grace National Bank of N. Y., and Panagra, and Gulf & South American Steamship Co., total earnings per common share amounted to $3.76 compared with $4.80 in 1956.

Sales and operating revenues reached a new record of $459,728,000 compared to $438,137,000 in 1956. Sales of the Chemical Group and of the company's Latin American operations, as well as steamship revenues, all set new highs. Commodity trading volume was off.

Earnings as reported for 1957 were reduced by the adoption of a more conservative treatment of the tax effect of using sum-of-the-year's digits depreciation, offset in part by certain prior year adjustments.

Substantial progress was made during the year in strengthening three of its important lines, chemicals, paper in Latin America and ocean transportation.

The company has successfully

(*Please turn to page* 290)

Keeping Abreast of Corporate Developments

Bristol Myers Co. through its Bristol Laboratories division has produced on an experimental basis a new antibiotic drug, Kanamycin. According to Bristol Laboratories this new drug has been used successfully to treat patients with strains of bacteria that are resistant to other antibiotics. The drug is not yet on the market.

Bristol states that 27 infants in Houston, Texas received Kanamycin. Of these, 20 were suffering from the new virulent strain and all but 3 recovered. The company said that the ones who died were "desperately ill" before the drug was given.

Thompson Products, Inc. through its Dage Television division, Michigan City, Indiana, has developed a new "pocket" TV camera which includes all the technical features of broadcast equipment, yet weighs approximately 4 pounds and measures slightly more than a paper back book. The camera is fully transistorized and is designed to sell at about $8000.

Standard Oil Co. (N.J.) through its Esso Research & Engineering Co. has reported development of a new synthetic rubber.

The company says the new polymer withstands high temperatures, can be cured rapidly, is compatible with both natural rubber and other synthetic rubbers, resists distortion and is less vulnerable than other rubbers to harmful chemical elements in the air.

International Telephone & Telegraph Corp. announced development of a new ultra-sensitive instrument called an electro-spectro-analyzer combined with a computer which it states will measure the quantity of hormones in complex chemical mixtures.

It will be used by the Sloan-Kettering Institute for cancer research. I. T. & T. says the device not only does in minutes, analysis that now requires days and sometimes weeks, but also it measures the quantities of hormones in chemical mixtures so complex that they cannot be analyzed by present methods. Infra-red spectrometers of the type used by International Telephone as past of its device have long been used to analyze chemicals.

The device is expected to sell for under $100,000.

Federal Paper Board Co., Inc. has arranged to acquire the Federal Glass Co., Columbus, Ohio, a manufacturer of machine-made glassware and corrugated containers.

The acquisition, which will be effected by an exchange of shares, has been ratified by directors of both companies and will be submitted to stockholders for approval.

The agreement provides for the exchange of 1 share of Federal Glass common stock for 1.155 common shares and one half of a $25 par 4.6% cumulative preferred share of Federal Paper Board. This exchange will require 259,875 shares of Federal Paper Board common stock and 112,500 shares of its preferred stock. After the merger, Federal Paper Board will have outstanding 1,067,487 common shares and 387,229 shares of 4.6% preferred stock.

Federal Glass specializes in quality machine-made glassware sold through chain, department and other retail stores in the U. S. and abroad. Its Hercules Box Co. division operates a modern plant for the manufacture of corrugated containers which represent an important part of the company's total sales volume.

The two companies complement each other in many respects. Federal Paper Board, with 17 mills and carton plants, is a substantial user of corrugated boxes and a supplier of container board, while Federal Glass is a growing user of folding cartons. The current acquisition establishes the nucleus for Federal Paper Board's entrance into the corrugated container field. It also marks an important diversification move by Federal Paper Board into a new area of industry. Upon approval of the merger by stockholders of both companies, Federal Glass will become a division of Federal Paper Board, with present management remaining in charge. Giving effect to the merger, Federal Paper Board will have total assets of about $50 million and working capital in excess of $18 million.

Grumman Aircraft Engineering Corp. plans to introduce this summer first production model of a new plane called AG-CAT, designed specifically for the agricultural market as a crop-duster and sprayer. Prototype versions of (*Please turn to page* 291)

Shipping And Shipbuilding

(*Continued from page* 267)

totalling 150,000 tons in 1956. While the company is an expert in building large tankers, it will hold the honor of constructing the largest in existence when it lays the keel this year for a 106,500 tonner. Although the company does not break down its figures from its shipbuilding. It has been estimated that in 1956, this division's sales were slightly over 10% of total volume or about $235 million. At present, its shipbuilding backlog is about $937 million.

Bath Iron Works' reputation has always been as leading builder of destroyers. Because of this, the company has not participated to the same extent in the shipbuilding upsurge in the past two years as have others. However, since the bulk of our Naval fleet is now obsolete or inadequate for modern warfare needs, Bath stands to benefit materially over a longer period of time. It is presently involved in the construction of guided missile surface ships whose missions are anti-aircraft, anti-missile and anti-submarine. The company has orders up to now for four guided missile destroyers. The backlog, while down from a year ago, is still substantial and amounts to almost a $100 million. Profits were down in 1957 to $5.11 a share from $6.71 in 1956, primarily due to the intense competition in the industry which resulted in lower margin contracts.

Following close behind Bethlehem Steel in the number two position as a shipbuilder is **Newport News Shipbuilding & Dry Dock Co.** It has the honor of being the largest fully integrated yard in the country completely equipped with machine shops, forging facilities and large iron, brass and steel foundries. Newport News not only constructs all types of vessels, but also converts, reconditions and rebuilds ships. The two largest of the company's seven ways are capable of accommodating ships the size of the United States and Forrestal.

Last year Newport News' gross revenues amounted to $177.6 million, including 67% from shipbuilding, 20% ship conversion and repair and 12% from hydraulic turbines and miscellaneous

items. In the previous year corresponding figures were 68%, 21% and 11%, respectively from $117.8 million sales. Earnings in 1957 were $4 a share up from $2.13 in 1956. With the backlog close to $450 million at the end of last year, revenues and profits are expected to show a further improvement in 1958.

Newport News has an important stake in the future of nuclear propulsion for ships. This is seen by the fact that early this year it laid the keel of the first nuclear-powered aircraft carrier, the Enterprise, and a nuclear submarine, the Shark. Of further significance, is that the company has contracts for the design and installation of the prototype nuclear propulsion unit under construction for the AEC at the National Reactor Testing Station in Idaho.

Another important entity in the shipbuilding field is **New York Shipbuilding**, an 80% owned subsidiary of Merritt, Chapman & Scott, the diversified industrial empire of Louis E. Wolfson. New York Ship is also in the nuclear field, having been awarded a $21 million contract last year for the world's first nuclear-powered merchant ship. The vessel to be called the N.S. Savannah is scheduled to be launched in 1959 and in operation the following year. The company's backlog of over $280 million, a peacetime record for it, should provide the yard with a high level of activity to mid-1960 with some of the work carrying over into 1961. Included in the order figures is about $100 million for the aircraft carrier Kitty Hawk, three guided missile destroyers, an attack submarine, six tankers and the nuclear merchant ship mentioned above. Exclusive of the backlog is a $110 million order for the sister ship to the S.S. United States. New York Ship was the low bidder on this vessel, but its fate lies with Congress which must appropriate the funds for construction. Well informed sources state that this should occur at any time in view of the nation's temporary business recession.

The company's new graving or dry dock costing about $10 million was built primarily for the Kitty Hawk. However, when and if the construction of the new luxury liner is approved this dock will be used for both ships.

Although **Todd Shipyards** has been principally known as the world's largest ship repair organization, 1957 witnessed the re-entry of this company into the field of major shipbuilding. Actually, Todd is not new in this area of activity. During World War II it constructed over 1,000 ocean going merchant and Naval vessels. But it does mark a fresh departure from its peace time business. As evidence of its building experience, the Navy awarded Todd an $18.5 million contract for construction of a guided missile destroyer at its Seattle Division. Further, it received a $22 million contract for two transports from Moore-McCormack Lines. Other orders include conversion of a tanker, a 190 foot caustic soda barge and a 110 foot barge to carry hot asphalt.

Todd, in addition to doing building, repair, reconversion, intrial work and general engineering, has developed a line of equipment unrelated to its main business. The company manufactures and markets oil, gas and combination oil-gas burners and burning equipment, package burner units, asphalt heaters, thermo air heaters, etc., under the name of Todd. Acceptance of the products has been good and sales which have been at a high level are expected to grow even further.

Fiscal 1957 was a record year for the company as shown by its profits of $18.46 a share as compared with $7.07 in the previous business year. With the small common stock capitalization, it was inevitable that sooner or later, the equity would be split. Recently, the directors approved a 3 for 1 split subject to shareholder acceptance in June.

Prospects for Shipping Lines

Although the long-term outlook for shipping is still attractive, this industry somewhat like shipbuilding, has its periodic slumps. World shipping is, at present, going through one of these slumps. Last year profits from shipping were generally favorable, but as things stand now, earnings in 1958 may probably be down. Fortunately, U. S. ships operate on more vital trade routes and Uncle Sam pays them a subsidy. American flag lines, therefore, are not in dire distress through the tramp ship operators who receive no subsidy are reportedly in a bad way. The talk has been that the decline has bottomed out, however, this country is going through a temporary business decline, which should tend to reduce export sales. For many years, our exports far outstripped imports. While profits of the shippers may be down this year, subsidy adjustments should have a base which will moderate individual declines.

Since it is expected that profits of shipping lines will generally fall off in 1958, it is questionable how the various equities will fare. It appears that marketwise many of these stocks have discounted the poorer prospects and, at this point, afford excellent yields which seem reasonably secure. One such case in point is **American Export Lines**, in our opinion. This company is paying a dividend of $2 a share, which gives a yield of 8% at the current market. With certain adjustments, American Export earned $8.09 a share in 1957 and without these adjustments profits were $7.39 a share, covering the annual dividend rate by a very comfortable margin. Actually, the dividends paid in the last few years have been out of retained earnings rather than from current ones. What this really means is that under the Merchant Marine Act of 1936, a shipping company that deposits its entire net profits into a capital reserve fund for the construction of new vessels is not required to pay taxes. American Export did this in 1956 and 1957. Earnings, however, can be withdrawn from this fund at any time, but are then subject to tax at time of withdrawal.

The company operates between

the U. S. Atlantic ports and the Mediterranean, Adriatic, Red and Black Seas, India, Pakistan, Ceylon and Burma. Its fleet consists of the two well-known 1,000 passenger luxury liners, the Independence and Constitution, and 28 other various type ships. It is planning to build a third liner as a sister ship to the Independence and Constitution.

Long regarded as a pioneer in the domestic intercoastal trade, **American Hawaiian Steamship Company** no longer is in the shipping business. It served the shipping public for over 50 years except during the wars when the Government requisitioned its vessels. After World War II, the company re-entered the intercoastal trade, but by 1956, due to the high cost of operations, could not operate profitably anymore. It then suspended service and liquidated its vessels. After preliminary investigation, American Hawaiian decided to build a fleet of trailerships designed for its former business. However, after several years, no ships have been built nor has any particular program been formulated. Recently, a minority stockholder group proposed that the company liquidate. This proposal was made because the company holds a portfolio of various types of securities not operating other than an investment company. Book value as of the end of last year was $100.61 a share.

Moore-McCormack's scope of operations changed last year with the acquisition of the Robin Line. This acquisition enabled the company to serve South and East Africa as well as South America, Scandinavian and Baltic ports it has been calling at for years. With the Robin Line, Moore-McCormack's potential prospects have risen considerably in view of the future of East Africa, which is now becoming increasingly more developed. At present, the Mooremack fleet consists of 41 cargo liners and T-2 tanker of an aggregate capacity of around 500,000 tons. This year, two new passenger liners, the Brazil and the Argentina will enter service between New York and the East Coast of South America. Last year, due to the Robin Line acquisition and one smaller unit, revenues increased to $78.4 million from $60.2 million in 1956. While net income was higher, per share figures in 1957 were down to $2.63 from $3.02 because of a greater number of shares outstanding.

Among the most heavily traveled sea lanes in the world and also the most competitive, is the North Atlantic run. Here, the world's largest and fastest luxury liners sail under flags of just about every major nation in the world. Representing our country is the **United States Lines.** This company holds the speed record from New York to Southampton, England through its liner, the S.S. United States. The United States' running mate is the S.S. America, scheduled to be replaced as mentioned earlier in the article. In addition, U.S. Lines operates 55 other vessels, including two under charter. It not only serves the North Atlantic routes, but also Hawaii, the Philippines, Japan, Korea, Formosa and other Far East ports.

The bulk of income of this subsidized ocean carrier comes from Transatlantic passenger and freight service. Total 1957 operating revenues reached a new record of $147.8 million, an increase of 15.4% over the $128.1 million of 1956. Earnings last year amounted to $7.16 per share compared with $7.13 a share, exclusive of non recurring credit, in the year before. Profit margins are expected to shrink this year due to higher ocean and dockside costs. Since operations are sensitive to world business conditions, earnings of U.S. lines are likely to ebb in 1958 from the high income mark set last year.

Among the most heavily traveled sea lanes in the world and also the most competitive is the North Atlantic run. Here, the world's largest and fastest luxury liners sail under flags of just about every major nation in the world. Representing our country is the United States Lines. This company holds the speed record from New York to Southampton, England through its liner, the S.S. United States. This ship is unique in that she has been planned from the keel up for prompt conversion to a troopship. Since there are adequate sanitary and fresh water facilities already built into the ship, it would only be necessary to add bunks to carry 14,000 troops. Thus, converted as a troopship, the United States would sail around 33 knots for at least 10,000 miles without stopping for fuel or water. The United States' running mate is the S.S.

America, scheduled to be replaced as mentioned earlier in the article. In addition, the U.S. Lines operates 55 other vessels, including two under charter. This cargo fleet includes 9 Mariner-type ships of 13,600 tons capacity each, 44 C-2 type and 2 converted Liberty-type cargo vessels of approximately 10,000 tons deadweight capacity each. Nearly 80% of the voyage revenues of the company are from operations of cargo ships. U.S. Lines not only serves the North Atlantic routes, but also Hawaii, the Philippines, Japan, Korea, Formosa and other Far East ports. Operating earnings of the company last year were the highest in its 21 years and equaled $7.15 a share against $7.13 in 1956. Interesting to note is the fact that book value has more than doubled since the end of 1948 when it was $20.17 a share to $49.63 at the end of last year. Also accumulated earnings retained in the business or earned surplus has increased more than 300% in the same period. The company is presently paying $2.00 a year in dividends which affords a yield of over 6%. END

Where Automation Has Fallen Short of Great Expectations

(*Continued from page* 246)

computer, for a time, appeared to be a panacea for all office problems. But the computer has brought along with it heavy investments and installation costs; the need for retraining and reorienting office personnel; investments in new air conditioning, because the equipment in some cases can raise the temperature in an office extremely rapidly.

The experience of most companies with computers indicates that if clerical cost savings are the primary objective, a number of companies installing such equipment may face disappointments. If however, faster reports are desired, electronic computers appear to be fulfilling the objective in approximately four-fifths of all cases studied by one survey. This study showed that 42 per cent of the respondents indicated that their experience with an automatic data processing program had fallen below the norm which they had previously established.

In most cases, the machine was not responsible for these rather numerous disappointments. The primary cause, according to one authority, was the widespread underestimation by management of the costs, the difficulties and the magnitude of the task.

The most common mistakes have included failure to define the objectives, improper organization of the data processing program, inaccurate estimates of the real costs involved in conversion and installation, ill defined standards of performance, poor personnel practices.

What this adds up to is that management must place itself on a highly efficient basis before it is qualified to make effective use of automatic data processing. In many cases, this is asking a great deal.

Some companies have learned at bitter cost that the assimilation of automation in office or factory can be accomplished only through a broad educational program of staff and workers. Such a program requires time. Sometimes the customers of the company that has installed factory automation cannot afford to wait for the arrival of promised goods. In one notorious case, a company which had installed a costly system of automatic machinery for assembling automotive components found that it was unable to make deliveries because the equipment could not accommodate itself to the varying sizes of parts ordered by different customers. The breakdown of new untested equipment furthermore, caused it losses from which it is still recovering.

A major utility company, after two years of preparation for the installation of a large-scale computer in its office announced that it had underestimated the running time of the daily billing cycle. It was forced to discard the program and adopt a new one. In other cases, a year or more of extra time has been needed to complete preparations for installation.

One executive of Chrysler Corporation remarked that the way to put together a team of people to "work on electronics" was to take some one who has "good knowledge in how to run the business."

"A good systems and procedures man", he said, "can be trained in electronics much easier than somebody who knows electronics can be trained in how to run the business".

At present, the number of persons who know "how to run a business" is in short supply. Automation hardware for the office has been shipped out faster than trained and wise people could be found to operate such hardware.

Automation still offers great opportunities. But in both office and factory, fully automated installations are apparently coming more slowly than seemed likely a year or two ago. —END

Airline Outlook Still Foggy

(*Continued from page* 261)

a question only the future can answer. It seems obvious, however, that buyers of airline equities are counting on progress in the years ahead rather than on nearby developments to provide basis for appreciation in their securities.

To attempt an appraisal of the transition to jet transportation it may be well to study projections of an individual management under today's conditions. American Airlines, for example, contemplates introduction of jet flights between New York and Los Angeles next January on Boeing's 707's. It is contemplated that the new jetliners will provide a saving in time of 40 per cent or more, reducing hours in the air to about five, against almost nine at present. Manufacturers have indicated that long-range jet liners can be operated at costs comparing favorably with DC-7 models now in use and with other piston-engined transports. Although capital investment will be extremely high, longer periods of depreciation are contemplated. Increased payloads and greater speed should tend to compensate for higher cost-per-hours in flight. Other economies are believed to offer an inducement for the transition.

Bringing New York and California closer from a traveler's point of view is expected to enlarge the potential market for airlines in the years ahead. Moreover, younger generations are likely to be more thoroughly airminded. Teenagers, as an example, cannot remember when there were no airliners, in service. They look upon this method of transportation as completely normal and consider it no more dangerous than railroad trains or busses. For this reason, there is

cause to look for remarkable progress in air transportation in the decade ahead as jet equipment is perfected and widely adopted.

Even though popularity of air travel is expected to grow by leaps and bounds as younger generations come of age, it must be said that gains already achieved have been little short of phenomenal. In the last ten years it seems evident that the number of planes in use has expanded at a rate beyond earlier forecasts. Approximately 1,800 now are in service, compared with perhaps a thousand at mid-1948. Numbers of passengers carried have more than tripled in a decade, while revenue passenger miles flown have jumped to more than 24 billion in 1957. Government statistics suggest that airlines now account for about 40 per cent of intercity common carrier traffic (aside from automobiles), compared with less than 10 per cent in 1948. In total revenue passenger mileage air transport now accounts for substantially larger volume than handled by railroads, whereas a decade ago air passenger mileage was only about one-sixth that of the rail competitors.

Competition

The vigorous increase in business four or five years ago enabled most air transport companies to show reasonably satisfactory (and sometimes excellent) earnings in spite of rising costs, but in the last two or three years—under the impact of increased competition—profits have not kept pace either with rising volume or with operating costs. This situation has been aggravated by route awards that resulted in providing more service than the public required and by prolonged delays in granting rate relief.

Although the air transport industry is rigidly regulated, especially with regard to rates that may be charged, it is far from a monopoly. With approval of the Civil Aeronautics Board, numerous additional routes have been opened in the last year or two, especially in the more densely populated sections on the country. Lucrative routes along the Atlantic Seaboard from New England to Florida, as well as from the Middle West to Southern resort territory, have been divided among newcomers. In due course, traffic growth will demonstrate the need for additional routes, it is believed, but for the time being load factors have been penalized and established carriers have felt the impact of nearby competition.

Mounting popularity of tourist or coach accommodations, especially on longer routes to resort areas, has helped stimulate passenger business, but this type of traffic is less profitable and tends to bring down average revenue for most carriers. Until the temporary boost approved by the C.A.B. in February, the airlines had enjoyed no significant rate increase in years. It can be shown

Comprehensive Statistics Comparing the Position of Leading Airline Companies

Figures are in millions except where otherwise stated.	American Airlines	Eastern Air Lines	National Airlines	Pan Amer. World Airways	Trans World Airlines	United Air Lines
CAPITALIZATION:						
Long Term Debt (Stated Value)	$ 68.1	$ 75.0	$ 4.0	$ 81.1	$ 63.1	$ 93.3
Preferred Stock (Stated Value)	$ 15.0	......	......	......	......	......
No. of Common Shares Outstanding (000)	7,898	2,921	1,044	6,115	6,674	3,460
Capitalization	$ 91.0	$ 78.6	$ 5.0	$ 87.3	$ 96.5	$127.9
Total Surplus	$107.1	$ 98.4	$ 25.3	$120.5	$ 78.5	$ 83.1
INCOME ACCOUNT: Fiscal Year Ended	12/31/57	12/31/57	6/30/57	12/31/57	12/31/57	12/31/57
Total Oper. Revenues	$305.9	$262.4	$ 56.8	$312.6	$263.6	$281.9
Deprec., Depletion, Amort., etc.	$ 21.8	$ 28.8	$ 6.0	$ 34.2	$ 26.0	$ 27.2
Income Taxes	$ 9.0	$ 4.3	$ 2.7	$ 7.4	......	$ 5.5
Interest Charges, etc.	......	$ 2.1	$ .2	$ 3.2	$ 2.8	$ 2.8
Balance for Common	$ 10.3	$ 9.3	$ 3.1	$ 8.2	$[d] 1.5	$ 7.8
Operating Margin	5.7%	4.0%	10.5%	4.8%	......	4.8%
Net Profit Margin	3.5%	3.5%	5.5%	2.6%	......	3.1%
Percent Earned on Invested Capital	8.3%	9.1%	11.8%	6.5%	......	6.7%
Earned Per Common Share*	$ 1.31	$ 3.21	$ 3.00	$ 1.35	$[d] .23	$ 2.28
BALANCE SHEET: Fiscal Year Ended	12/31/57	12/31/57	6/30/57	12/31/57	12/31/57	12/31/57
Cash and Marketable Securities	$ 65.8	$ 50.2	$ 5.9	$ 25.8	$ 29.9	$ 57.8
Inventories, Net	$ 1.7	$ 6.2	$ .6	$ 6.0	$ 13.7	$ 2.7
Receivables, Net	$ 41.6	$ 17.8	$ 3.8	$ 45.3	$ 21.5	$ 34.3
Current Assets	$110.0	$ 74.3	$ 11.0	$ 86.8	$ 70.1	$ 96.1
Current Liabilities	$ 74.8	$ 39.3	$ 10.4	$ 79.3	$ 64.8	$ 60.9
Working Capital	$ 35.2	$ 35.0	$ .6	$ 7.5	$ 5.3	$ 35.2
Current Ratio (C. A. to C. L.)	1.4	1.8	1.0	1.1	1.1	1.5
Fixed Assets, Net	$ 79.8	$136.0	$ 25.0	$148.7	$170.0	$185.9
Total Assets	$267.2	$219.0	$ 46.0	$296.0	$253.6	$285.9
Cash Assets Per Share	$ 8.34	$ 17.21	$ 5.77	$ 4.21	$ 4.49	$ 16.71

[d]—Deficit.

*—Data on dividend, current price of stock and yields in supplementary table on page 261.

by statistics that air travel costs remained far behind those of competing common carriers, as well as municipal transportation systems.

Rising Costs

In hearings being conducted by the C.A.B. as part of a comprehensive study of the industry's entire rate structure, managements submitted data showing that even with the benefit of the recent emergency rise, the carriers had obtained inadequate relief, whereas average salaries paid by airlines had shot ahead by 78 per cent since 1947 and maintenance costs had risen 44 per cent. Prices of fuel and oil purchased for air transportation have jumped 41 per cent since 1947, while general industrial prices rose 28 per cent and general consumer prices advanced 22 per cent. These comparisons demonstrate the urgent need for additional rate relief, the airlines assert.

Outlook

Assuming that the prevailing business recession becomes no worse and that seasonal factors bring about a normal expansion in air travel this summer, earnings of most transport lines may hold up more satisfactorily than managements had envisaged prior to receipt of the February rate increase. It has been estimated that higher fares may contribute between $80 and $90 million additional revenues this year. In some cases services have been curtailed to accomplish operating economies.

Modifications in regulations governing depreciation allowances may have a favorable impact on some companies. The C.A.B. has ordered adoption of a uniform policy effective January 1 this year which requires airlines to write off equipment over a seven-year period to a residual value of 15 per cent plus a sum equivalent to a single major overhaul. Although some companies have followed a policy about in line with this procedure, others have been more conservative. Eastern Airlines, for example, has depreciated planes on a four-year basis, while American modified its policy last year by reducing the write-off period to five from seven years.

The new policy is expected to result in lower depreciation charges at least for these two important carriers over the next year or two, thereby enlarging reported net profit. Even though the adjustment will have no effect on cash income and income tax computations, they may provide a more cheerful market environment. It has been estimated that 1958 depreciation accruals by Eastern may be trimmed by $18 million, which could have an inflationary effect on earnings approximating $3 to $3.25 a share.

Over the longer term the air transport industry offers the prospect of vigorous growth in traffic and areas served, but for the short-term investor interested chiefly in income and/or price appreciation the outlook in this group appears less attractive than in other areas. The fact that representative issues have been neglected for some time may be noted as a favorable omen. END

What First Quarter Earnings Reports Reveal

(*Continued from page* 259)

per share, from 91¢ a year ago. The company has a long record of almost uninterrupted growth. It is the leading producer of soaps and synthetic detergents, as well as an important manufacturer of household and food products, chemical pulp and sanitary paper. Similarly, consolidated earnings of **Colgate-Palmolive,** including foreign subsidiaries, increased to $1.72 per share in the recent quarter from $1.70 a year ago. The company is the second largest seller of soaps and detergents in the domestic market and a leader in household products. Some two-thirds of its earnings are derived from foreign sources, particularly Europe.

Again, earnings of **Coca-Cola** in the first quarter of this year amounted to $1.11 per share, compared with $1.24 a year ago, representing a relatively moderate decline. The company does not publish dollar sales. However, it was officially stated that gallon sales reached an all-time high level in the recent quarter, notwithstanding the fact that domestic sales were affected adversely by bad weather conditions. **Pepsi-Cola,** the second largest producer of cola-type soft drinks, reported first quarter profits of 26¢ per share, as against 25¢ a year ago. Domestic sales reached a new record 5% higher than in the initial 1957 period. The company is extending its marketing area, particularly in the foreign field.

While the record of these companies, particularly Coca-Cola, is favorable, their business in great part depends on large-scale advertising.

Concluding Considerations

In summary of the first quarter reports reviewed in both this article and our May 10th issue, it should be kept in mind that nearly all adverse earnings statements reflect, in whole or in part, the cost-price "squeeze" that is plaguing industry in general. Unlike other periods of declining business, particularly so-called depressions, costs are now relatively inflexible, in great part due to rigid or rising wages. Thus, while the volume of business could level off rather than decline further over coming months, in line with general expectations, profits may continue to be "squeezed". We may repeat, from the final paragraph of our May 10th article, that second quarter profits in most industries may be no better and could be worse than those recently reported. Today, the investor must be alert and above all realistic in his thinking. At the moment, business is in process of an orderly adjustment, but investors should continue to be watchful for any change. END

Reappraising Aircrafts Under Uncertain Defense Contracts

(*Continued from page* 243)

have been prodded into making an estimate for manned aircraft potentialities as weapons several years hence. Their average prophesies indicate that for defense, aircraft may be 60 percent and missiles 40 percent. For offense, missiles would be in the neighborhood of 55 percent and aircraft 45 percent.

These ratios are not encouraging to aircraft firms. The operational planes of two years hence are being manufactured now. It is the operational ratio of four

years hence that determines the activities and profits of military contractors for the next year or so, and in this period of rapid technological break-throughs no responsible military man will risk his reputation by making a prophesy that far ahead.

The Pentagon as a whole has been critical of the aircraft industry, complaining of slowness to convert skill and facilities to the newer weapons. Military officers state that there is now three times as much plant area as is needed for airframe and aircraft engine production. Two years hence there may be five times as much as is necessary. The 30 day concept of a nuclear war precludes the need of this excess plant capacity as stand-by plants.

All of the military aircraft contractors have studied the new problems that confront the Pentagon and have considered the business opportunities. Nevertheless, they have reached or been forced to different conclusions. A few have boldly gone into the guided missile business by establishing new divisions or buying small missile firms or subcontractors. Convair, Martin, Douglas and Lockheed are prime contractors for ballistic missiles. However, most of the large sums spent on these weapons go to the many associate contractors for the guidance and propulsion components and the ground handling equipment.

Douglas, Lockheed, Boeing and Convair are putting increased emphasis on commercial jet airliners to take up some of the slack due to military cutbacks. Fairchild is entering this very competitive field with a small Dutch designed airliner with British turboprop engines. Due to tooling costs the recent earnings have been in the red but orders have reached halfway to the 200 mark which the company believes will enable it to break even.

Over the past year, reports of negotiations for a merger of Martin and Lockheed and of Martin and Boeing were vigorously denied. The former was finally admitted after negotiations were broken off. Rumors of other mergers that have been circulating in the Pentagon include the names of Bell, Northrop, Vertol, Grumman and Republic. All have reason to diversify their military products.

Most military aircraft approach obsolescence at the end of their planned production run and are replaced soon thereafter by newer weapons of better performance. Boeing produced an exception when the G model of the B-52 heavy bomber was designed. The new integral wing design, better electronic capability, and installation of a new model of turbojet engine containing a high percentage of titanium parts to replace the eight all steel engines meant longer range, effective missile carrying ability and better defense capability against heavily defended target areas. This improvement justified an extension of the contract that will keep the production line open until early 1960.

No Support from Congress

Senators Jackson and Symington have found little support in Congress and none in the Administration to extend the production line for still another year. Unless this is done Boeing cannot retain its top position on the list of military contractors.

The net from the airframe manufacture of the B-52 and its aerial tanker, the KC-135, is now over $100 million per month. The future business of the new Boeing commercial jet airliner and the very effective Bomarc air-to-air missile will not make up for this loss.

An example of the effect of the high cost of modern military aircraft is found in the action of the Navy in its effort to develop a new Mach 2 carrier fighter. A production run for test purposes of 18 F8U3's from Chance Vought showed costs of $9.9 million each; 24 F4H's manufactured by McDonnell showed costs of $7.4 million each.

The Navy had planned a program for several hundred of these weapons. Although over a half-billion dollars has already been spent on these projects, budgetary limitation may force the abandonment of the whole program. Navy fiscal experts believe that the same funds applied to guided missile vessels would produce a more efficient defense.

Shifts in Aircraft Leadership

An example of a large company whose prospects in the aircraft and missile field has changed completely in the last year is North American. Last summer the Navaho missile project was cancelled after nearly a billion dollars had been spent on development. The F-100 fighter contract had been completed. The Air Force had rejected the design for the F-107 Fighter in favor of the Republic F-105.

Since then North American was awarded the contract for the chemical engine B-70 heavy bomber over strong competition from Boeing. This Mach 3, long range, high altitude bomber is scheduled to replace the B-52.

An Air Force contract for development of a Mach 3 F-108 long range fighter followed. Last winter North American was awarded the development contract for the Hound Dog air-to-surface missile over a dozen active competitors. This is a top priority project that could run into hundreds of millions of dollars. The Rocketdyne Division is busy on orders for large rocket engines for ballistic missiles and spaceships. A Navy production order for a new carrier fighter adds to the backlog.

The Convair Division of General Dynamics is fortunate in its variety of aircraft and missile contracts. Its Atlas ICBM ballistic missile appears to be the first such weapon for operation. The Navy guided missiles Terrier and Talos are being rapidly installed on light and heavy cruisers.

The production of F-102 fighters now being completed will be followed by the more powerful F-106. The new B-58 medium bomber, under test for the past year, is now going into production.

Several contracts for a reconnaissance satellite may soon be announced. They are of a classified nature and could run into the hundreds of millions of dollars. Funds are available in the Pentagon. Industry observers do not believe they will be awarded to airframe contractors.

The largest and most sought after award in the offing is that for the glide bomber spaceship known as the "Dyna-Soar" project. According to the Pentagon this weapon would be propelled by "centrifugal and aerodynamic" forces. In other words, it could be orbitted around the earth or be flown through the high atmosphere propelled by rocket propulsion. It could be manned and brought back to earth.

Theoretically the project is entirely feasible. The award is to

be made to the company submitting the most practical and scientific proposal. Being in the early research stage the project may well require five or six years and several billions of dollars.

Martin, Boeing, Bell and North American are among the dozen active firms who have submitted proposals. The award may be made in ninety days. The Air Force will probably make the initial award, but the project may be supervised during development by the new defense unit, the Advance Research Projects Agency.
—END

What I Saw Behind the Iron Curtain

(*Continued from page* 255)

centers," serving communist propaganda along with the beer, which is still excellent.

"Rise of the Idiots"

Economic discontent is, however, only a part of the story. There is also deep-seated longing for political freedom and for spiritual and cultural contacts with the West. Non-Russian moving pictures, when available, are extremely popular. The people are so satiated with communist propaganda exalting everything "Russian" that they tend to accept, almost indiscriminately, anything coming from the West.

But the hardest thing for the Czechoslovak people – who won their right to national recognition chiefly through education—to live down is the so-called "Rise of the Idiots" (Vzpoura Idiotu). By this the Czechoslovak people mean the rather incomprehensible determination of the Czech Communist Party hacks to reduce to proletarianism, or to liquidate, not only the former enterpreneurial class and the former Government officials, but also intellectuals whom they suspect of being "middle class."

This determined elimination of some of the best-informed and gifted people for the sake of creating a classless society, is usually done via a highly detailed questionnaire. This questionnaire is then evaluated by a "cadre-confident," generally a former janitor, who adds all kinds of gossip. On the basis of this vicious document, based on organized spying, the people are professionally made or destroyed. A decision of the local "National Committee," usually consisting of misfits and former proletarians with a chip on their shoulders, may send experienced factory foremen and learned college professors out to jobs as hod carriers or farm workers.

In contrast with the Russian communists, who reportedly make the best possible use of their gifted people, irrespective of class origin, the Czech Communist Party is deliberately throwing away national talents. The most vicious and the most disconcerting evidence of this is the refusal very often to permit children of "non-working class origin" to obtain even a high school education. In contrast, the children of working class origin—and they are still in the minority and not always gifted—are given the privilege of entering universities and colleges.

The harshness of life under communism, the general uncertainty in which the regime purposely keeps the bulk of the population as far as their jobs are concerned, and the lowering of educational standards have destroyed most social life and have coarsened the whole nation. People are jumpy and obviously unhappy. They hope for a miracle to deliver them from the rule of the Czechoslovak Communists.

Since I have returned, many people have asked what the chance is of the Czechoslovak people revolting against their communist masters. The chance is small indeed, as long as there are strong Red Army units in neighbouring Hungary and East Germany. There are no real leaders at home or abroad. The people that would be most likely to lead a revolt, the dispossessed and suffering middle class, are past their prime and are beaten by life. The rising generation is pampered by the communists, fed on the pap of sport achievements, and is politically indifferent. The communist propaganda has been clever in frightening the man in the street with the specter of a West Germany, armed with atomic weapons. The possibility that any deal with the West might force a revision of Czechoslovakia's borders in respect to West Germany (including a return of at least a part of the Sudetenland) is also a deterrent. A drastic worsening of economic conditions could drive the people into open resistance. But the communists are too clever to let that happen now. On the contrary, they are promising to raise the production of consumer durables, including automobiles, refrigerators, and washing machines, for the home market and to improve the general distribution of available goods.

Yugoslavia Revisited

In contrast with Czechoslovakia, Yugoslavia gives one the impression of being a more relaxed country. This does not mean that people are happy about the system. On the contrary, there appears to be much nostalgia among the older people, and among the Croats and the Slovenes in particular, for the old, imperial Austro-Hungarian days. Marshal Tito is not as popular as the "loyalty testimonials" plastered all over public buildings, and in store windows, would indicate. Actually only a small minority of industrial workers and of the urban population is said to be giving him active support.

Since the collectivization of agriculture was abandoned several years ago, the farmers seem to be satisfied. The air of uncertainty that hangs over the farmer in Czechoslovakia is not as apparent in Yugoslavia. There is little evidence of farm mechanization, but yields are seemingly improving. In parts of Croatia and Slovenia, the peasants appear to be prosperous, especially after the bumper crop last year. But conditions vary greatly from one region to another. Food is short and people desperately poor in Montenegro and Herzegovina, which are black stony wastes difficult to imagine. The regime has been trying to provide work in these areas by developing water power and mineral resources, in preparation for the introduction of industries. Its best effort, in this respect, is Titograd, a rebuilt city of about 40,000, just north of the Albanian border.

Yugoslavia would be hard to beat for poor planning and wasted effort in connection with industrialization. But the country is learning the hard way, and ne windustries are finally beginning to supply the domestic market with industrial products of considerable variety, including motor cars (built under license from Italian and German companies) and

many kinds of consumer durables. Since Yugoslavia is not helping the Soviet Union with the building up of underdeveloped countries, as Czechoslovakia has been forced to do, there has been considerable improvement in living standards since the early postwar years. But considerable American aid has also helped, especially in averting the near-famines that resulted from attempts at farm collectivization.

Housing has lagged in Yugoslavia, too, partly because of the rapid urbanization. Moreover, the Government has concentrated its efforts on the grandiose reconstruction of the center of Belgrade. The multi-storied palaces that are being built for Government ministries, bank, and other agencies stand in sharp contrast to the nondescript, badly kept houses of earlier eras. Except for its superb location on a bluff overlooking the flat plains along the Danube and the Sava Rivers, where a "New Belgrade" is now rising amidst factories and shipyards, Belgrade resembles, in many ways, a Texas boom town.

Among the communist countries, Yugoslavia is the only one that has learned not to do too much too fast. Its new Five-Year Plan, covering the period 1957-61, stresses production of consumer goods and housing. If the Yugoslavs of different Slavic strains tolerate Tito, it is largely because of his astuteness in getting assistance for building up the country from both the East and the West. In this connection, the West will do well to remember that the Yugoslavia of Comrade Tito is more anti-Western than anti-Russian.

Editor's note: Part II of this story will appear in the June 7th issue of the Magazine and will include Egypt, Israel and the Middle East.

Sears Roebuck—Montgomery Ward

(*Continued from page* 264)

The impact on foreign economies of this private "Point-Four" can be seen from the fact that in 1957 Sears purchased $43.3 million worth of goods from 6,200 Latin American suppliers. In Brazil over 98 per cent of its requirements were purchased locally; in Mexico the figure was 95 per cent; and in Colombia 86 per cent.

Growth Potential In Sears

The Latin American operation is a bold stroke by Sears to become the major merchandising organization in that part of the world. Nevertheless, political uncertainties will remain a factor of concern for many years to come. As a result, the stock may not reflect this particular area of growth. But in its Allstate Insurance subsidiary, Sears established an operation which may well be its most important venture so far. Confined at first to automobile insurance, initial operations have been highly successful and have paved the way for the newly created Allstate Life Insurance Company. Considering the inordinate success of similar companies in recent years, the life insurance affiliate should be contributing importantly to earnings in a few short years.

To date insurance earnings have been small for the parent company, but by 1961 the insurance portfolio could reach at least $500 million and have an earnings potential of approximately 50¢ per share for the Sears stock.

Perhaps of equal long range importance was the establish-

Income Data

	Net Sales	Income Tax	Deprec. & Deplet.	Net Income	Net Profit Margin	Earnings Per Share
	(Millions)					
MONTGOMERY WARD & CO.						
1953	$ 999.1	$42.8	$3.1	$41.1	4.1%	$3.06
1954	887.3	35.1	3.0	35.2	3.9	2.60
1955	969.9	38.2	3.0	35.4	3.6	2.62
1956	1,045.7	38.1	3.5	35.8	3.4	2.65
1957	1,073.8[1]	30.6[1]	4.5[1]	29.6[1]	2.7[1]	2.21[1]
SEARS, ROEBUCK & CO.						
1953	$2,981.9	$153.9	$21.3	$117.8	3.9%	$1.62
1954	2,965.4	149.4	23.6	141.3	4.7	1.94
1955	3,306.8	175.9	25.4	158.7	4.8	2.15
1956	3,555.6	178.5	22.3	164.8	4.6	2.20
1957	3,600.8[1]	172.7[1]	24.9[1]	161.0[1]	4.4[1]	2.15[1]

Balance Sheet Data

	Montgomery Ward & Co. (1/1/1958)	Sears, Roebuck & Co. (1/1/1958)
	(Millions)	
Long Term Debt (Stated Value)	None	None
Preferred Stock (Stated Value)	$ 20.1[2]	None
No. of Common Shares Outstanding (000)	12,808	75,061
Capitalization	$231.3	$ 225.1
Total Surplus	$416.5	$ 983.9
Cash and Marketable Securities	$148.8	$ 203.2
Inventories, Net	$227.4	$ 510.6
Receivables, Net	$277.1	$ 405.7
Current Assets	$673.2	$1,146.1
Current Liabilities	$ 85.6	$ 368.9
Net Working Capital	$587.6	$ 777.2
Current Ratio (C. A. to C. L.)	7.8	3.1
Net Property	$ 47.3	$ 272.3
Total Assets	$726.8	$1,578.1
Book Value Per Share	$ 48.49	$ 16.11
Recent Price of Common Stock	35	28
Price/Earnings Ratio	15.8[3]	13.0[3]
Indicated Dividend for 1958	$ 2.25	$ 1.10
Dividend Yield	6.4%	3.9%

1—Fiscal Year ended January 31, 1958
2—Class "A" stock.
3—Based on 1957 earnings per share.

ment, in 1956, of the Sears Acceptance Corp. Here again, Sears' management demonstrated its resourcefulness. When its credit operations became so large that they had outrun the company's ability to borrow from banks, Sears created the Acceptance Corp. with an initial capitalization of $35 million, to purchase its installment credit contracts. Since its purpose is to stimulate Sears' sales, the Acceptance Corp. earnings cannot match those of other consumer finance companies, but even allowing for this factor, credit operations probably contributed about 30¢ per share to earnings in 1957.

Combined with the inevitable growth of the nation's population, these new developments in the Sears picture lend an element of growth not usually associated with merchandising companies.

Ward's on the Move

Although it abdicated the field to Sears for most of the post-war period, Montgomery Ward has been making rapid strides since 1955, and unless a full scale depression intervenes, the gap should begin to close shortly. The quick success of Ward's once the decision to expand had been made, can be attributed to the vision and exceptional ability of President John Barr. His immediate attack was three-pronged. In his own words, it was evident that Ward's had three major needs:

1. To modernize its present stores . . . and a need for new stores—particularly in suburban locations with adequate parking facilities.
2. A need for more aggressive merchandising programs and policies.
3. A need to revitalize its personnel programs and the spirit and morale of its employees.

Possibly the last is the most important, for able management is the most vital resource a company can have. Moreover, the years of disillusionment had cost Ward's dearly in lost talent. Between 1931 and 1955 over 80 top executives quit the company, many to become highly placed elsewhere. For instance, Harold E. MacDonald, President of Household Finance, and Frank Folsom, President of RCA left the Ward fold in the difficult years.

Mr. Barr installed a top quality managerial team, but more importantly, an intense program of internal executive development was launched, much after the style that Sears had used so successfully over the years.

Other steps taken coordinated the retailing and mail-ordering operations, which had been effectively competing against one another, and rapid improvements were instituted in merchandising and warehousing. By reducing the expense of distribution, profit margins were immediately helped.

After these intial steps, the company began realigning its stores. Unprofitable units were dropped or modernized, and by 1957, nine new stores in major suburban shopping areas were under construction. In addition, in order to increase the speed of its expansion, the company acquired The Fair, in July 1957, a chain of four Chicago area department stores with sales of approximately $46 million. Other acquisitions are contemplated wherever they fit into the company's long range plans. In all Montgomery Ward has budgeted approximately $84 million for a five year expansion of its new stores and warehousing operations. As a result, earnings potential may be limited over the next few years, since stores generally fail to pay off in less than a year of operation—but over the longer term, the company will have substantially raised its earnings base.

Investment Summary

Both Sears-Roebuck and Montgomery Ward are major merchandising organizations, accounting for a substantial portion of total retail sales. Sears' credit paper alone, accounts for approximately 20 per cent of all consumer credit, barring automobile credit. With such an enormous participation in the economy, both companies, now ably managed, cannot help but grow as our population expands and consumer income rises.

For the near-term, however, Sears must be considered the one with the greatest earnings potential. Its well laid expansion plans have proceeded in orderly fashion and now contribute a large share of current earnings. Over the longer term, however, Ward's performance may appear more spectacular, since it will be coming from behind. Both companies, therefore, offer good investment value. END

Will Consumers Expand Their Buying? — The Areas Favored Today

(*Continued from page* 249)

"savings" are the payments on the principal of mortgages, life insurance premiums, and the purchase of securities.

Although total assets are large, they are not evenly distributed and many families have little or no available assets. Furthermore, assets in the form of insurance, pensions reserves and the like, are far from liquid. In these circumstances, consumers are not going to draw on nest-eggs to acquire new durable goods when their present auto or household appliance is still perfectly good.

Can Prices for Goods Be Maintained?

Unquestionably, owing to the time lag, the unit costs of consumer services will continue to rise, business recession or no. Even if consumer income is maintained, the ability of consumers to buy goods will be increasingly restricted by the necessity of devoting an ever larger percentage of income to the payment of services. If income continues its downtrend, the percentage going for services will rise just that much more rapidly, while the percentage of disposable income available for goods will decline.

Unless savings are drawn upon rather heavily, or unless prices of goods are reduced, the actual quantity of goods sold will decline. This, in turn, would necessitate further contraction of industrial activity and further decline in consumer income. In a situation such as this something has to give. Unless economic recovery occurs more rapidly than now indicated, it is likely that prices will have to be lowered. Faced with shrinking markets, the genius of American management will have to find the way.

Some Rays of Hope

Businessmen have derived some

cheer from the preliminary data on April retail sales, which show a slight upturn for the first time this year, and most significantly, this includes improvement in hard goods sales. This is a promising sign, although weather conditions this year have been so abnormal that the evidence of one month cannot be accepted as conclusive. There is also, we know, the possibility of a fairly large sampling error, particularly since the smaller stores, less frequently sampled, have not been doing as well as the larger establishments. However, maintenance of the current rate of purchases for several months, would certainly provide welcome support to the economy at this juncture. —END

Answers to Inquiries

(*Continued from page* 276)

manufactured paper from sugarcane bagasse for 19 years at Paramonga, in Peru and that capacity was expanded and a similar plant is being built in Puerto Rico and others should follow in other Latin American countries.

In the shipping field, Grace Line increased its fleet from 26 to 33 ships. Construction is progressing on the new 20,000 ton ships, the Santa Rosa and the Santa Paula, which will go into service during 1958.

The company states that the business recession which developed in 1957 and which continues in 1958 makes it difficult to forecast this year's results. However, in general, Grace plans to move ahead with its programs, measuring carefully all operating expenses and capital expenditures in the light of existing conditions.

Dividends of $2.40 per share were paid in 1957 and 60 cents quarterly has been paid thus far in the current year. —END

For Profit and Income

(*Continued from page* 269)

roughly 37-23, yielding 5.1% on a $1.75 dividend total ($1.50 regular), the stock is no bargain. Stocks of such lesser companies as Case, Minneapolis-Moline and Oliver Corp., none entirely in farm equipment, are highly speculative.

Diversification

Particularly in the case of companies which previously had limited potentials in unpromising industries, diversification into other lines is desirable – if it does not cost too much and is held to manageable limits. An extreme example of horizontal expansion and diversification, financed mainly by exchange of stock or debt financing, is Textron, Inc. Textiles (synthetics and woolens) were the whole story not so long ago. Now they provide roughly 25% of sales. There are 15 other divisions. Their products are too numerous to list here, but include, among others, iron and steel alloy castings, metal parts and fasteners, radar systems and electro-mechanisms, bathroom accessories and fixtures, power saws, generators and pumps; polyethylene products, aluminum products; foundry supplies, hardware, etc. It is hard to see how such a conglomeration can be efficiently managed from the top; or how – where original owning managers have been retained and have been paid what they regarded as a good price for their holdings – there can be any great benefit for Textron shareholders. Maybe such extreme diversification will pay off in the long run. In the first 1958 quarter, Textron earned 3 cents a share, against 58 cents a year ago. Peak profit under unusually favorable conditions was $6.76 a share back

BOOK REVIEWS

Public Papers of the Presidents of the United States – Volume I

The National Archives has condensed in 976 pages the public messages and statements of the President during 1957, launching the first of what is planned as a system of complete records under the title "Public Papers of the Presidents of the United States."

The book which has a $6.75 price tag went on public sale May 15 with no pretense that it will become a best seller. But to the extent that it meets a specialized needs it is invaluable. The Archives considers it has that assurance from the many inquiries as to where the precise language of all state papers issued by the President may be found either to be compared or placed in sequence for a true and complete picture of the covered years. The first volume is a record of 1957; others will follow annually. In special circumstances, a year or years prior to 1957 will be similarly covered.

Distribution will be made under strict regulations. Each Member of Congress, each Justice of the Supreme Court of the United States, and the chief officer of each department or independent agency in the Executive branch will receive one free copy. Additional copies may be purchased.

The first extensive compilation of the messages and official papers of the Presidents was published under Congressional authority between 1896 and 1899 and included Presidential materials dating back to 1789. Since 1897 there have been several private compilations but no uniform, systematic printing such as the Congressional Record and the U.S. Supreme Court have in their respective areas of operation.

A complete transcript of each of the 24 White House news conferences conducted in 1957 is set out. If it is contended that the President has remained steadfast in purpose, the proof would seem available in the answers he gave to like questions at different times; if the contrary is charged against him, that could be proved or disproved in the same pages.

The index is studded with names like Nasser, Molotov, Little Rock; topics such as Israel, AFL-CIO code of ethical conduct, outer space, installment credit. taxation—many others, each leading to a direct, quotable expression of Presidential views.

The titles of all White House releases are given, together with numerical designations for use if there is occasion to refer to the exact language.

Messages to heads of almost all major foreign Nations appear un-edited, and communications to Congress are fully reproduced.

The publication should take the guesswork and the hearsay out of much that is written and spoken as truth but which sometimes lacks that essential ingredient; distortion of language and timing is met head-on and destroyed by the simple process of "looking at the record."

U.S. General Services Administration $6.75

"Yonder One World: A Study of Asia and The West"

By FRANK MORAES

In "Yonder One World" Mr. Moraes compares conditions, ideas, and traditions of the key countries of Asia and the West, with particular attention to Great Britain, the U.S., and the West German Republic. In his extensive travels he has encountered paradoxes, conflicts, and contradictions which at once unite and divide East and West. He points out that science rather than religion is the chief factor in the cleavage, and shows that economically and technologically the problems of the West are far different from those of the East: the West must save labor, the East absorb it. His book includes appraisals of many of the world's leading statesmen whom he has met.

Macmillan $3.75

in 1946, from textiles only. Following deficits in 1952-1952, results were improved for four consecutive years to $2.25 in 1957. They will be lower this year, and the $1 dividend is not assured. The stock is around 11 in a 1955-1958 range of 29¾-9⅞. There is more to be said for staying with speculative holdings, for possible later recovery in some degree, than for new buying.

Mixed

Looking at the industrial average, which at this time has made up over 40% of last year's July-October decline, one can say that the market has largely "laughed off" poor business and earnings. But that is a half-truth. Plenty of stocks are at or not much above their 1958 lows. A few examples include: American Radiator, Allis-Chalmers, Bridgeport Brass, Revere Copper, Diamond Alkali, General Electric, Beckman Instruments, Borg-Warner, Goodrich, Monsanto Chemical, Motorola, National Lead, Sheller Mfg., Scovill, U. S. Plywood, U. S. Rubber and Westinghouse Electric.

Box Score

In April, 69 companies reduced or omitted dividends, against 24 a year ago. The "boxscore" is bound to get worse before it gets better. Hinging on later business developments, the decisive factor in total 1958 payments will be the November-December extras. We now expect them to be fewer, and smaller on average, than a year ago.

Wait and See

If you think that this department has ignored buying recommendations in its discussions in this issue, that is because we are not "sold" on this market upswing. We doubt that its foundations are solid enough. We think better buying opportunities probably will come along, without too much of a wait.

Keeping Abreast of Corporate Developments

(*Continued from page* 278)

the plane have been undergoing flight tests since early 1957.

Hooker Electrochemical Co. & Shea Chemical Corp. stockholders vote on May 28 on proposed consolidation under which Hooker Electrochemical will be the survivor and change its name to Hooker Chemical Corp.

The exchange plan calls for issuance by Hooker of 800,576 common shares in exchange for 1,401,010 outstanding Class A and C common shares of Shea Chemical and 41,200 common shares in exchange for 6000 outstanding $7 cumulative preferred shares of Shea.

Consolidation Coal Co., formerly Pittsburgh Consolidation Coal Co., after one year of occasional shutdowns due to engineering problems, has resumed full operation of 108 mile coal pipeline between Georgetown and Cleveland, Ohio. The facility is now pumping crushed coal at rated capacity of 150 tons an hour.

Smith Corona Inc. has developed an 18½ pound portable adding machine, chiefly for home use, and designed to retail for $89.50, against $99.50 for the next lowest model. Kleinschmidt Laboratories, Inc., subsidiary, is developing a 750 word per minute sending and receiving teleprinter for the Signal Corps. This subsidiary now does 25% of consolidated volume and has backlog of about $18 million. —END

As I See It!

(*Continued from page* 237)

declining on the world market because of *persistent Russian tin dumping* in Western Europe and the overseas sterling countries. Other Latin American commodity exporters have had similar experiences.

There is no doubt that our foreign trade policy is at times inconsistent. But compared to the vagaries of Soviet politico-economic maneuvers in foreign trade, it is like the Rock of Gibraltar. It is important for Latin America to remember that and also recognize that it is only being used to further Russia's economic warfare against the U.S.—to their detriment—while antagonizing the people of the United States regardless of government policies. END

Market Growing More Speculative

(*Continued from page* 239)

The Reserve Board's production index fell another 2 points in April, the same rate as in March, to the lowest level since October, 1954; and may be either slightly lower again, or little changed, for May.

As regards investible cash and the "inflation" factor, wherein is the situation significantly different from what it has heretofore been during the market's numerous up and down swings since the industrial average recorded its absolute top in April, 1956? We still do not see a realistic basis for a sustained, broad advance. —Monday, May 19.

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IMPORTANT MESSAGE . . . To Every Investor

With Securities Worth $20,000 or More

America is squaring off for the next round in the anti-recession fight! In the months ahead, *every security you own* may be affected —favorably or adversely.

You will want to sell or avoid issues likely to be hit by the wave of dividend cuts or omissions—the companies whose first quarter earnings will shock shareholders — the stocks that will bear the brunt of selling pressure

You will want to buy and hold the exceptional opportunities that emerge in every period of industrial transition—the companies that will get the bulk of defense and public works contracts—the prime beneficiaries of the amazing strides being made in scientific and industrial technology.

With business and security prices in the throes of adjustment to new conditions, you have much to gain from Investment Management Service—which has successfully aided investors in markets of every type to protect and build their capital and income . . . looking to future financial independence.

Expert Analysis of Your Present Holdings:

Our first step in serving you is to make a detailed report—analyzing your entire list—taking into consideration income, safety, diversification, enhancement probabilities—today's factors and tomorrow's outlook.

Issues to Hold and Advantageous Revisions:

Definite counsel is given on each issue in your account . . . advising retention of those most attractive for income and growth . . . preventing sale of those now thoroughly liquidated and likely to improve. We will point out unfavorable or overpriced securities and make substitute recommendations in companies with unusually promising 1958 prospects and longer term profit potentials.

Close Continuous Supervision of All Holdings:

Thereafter—your securities are held under the constant observation of a trained, experienced Account Executive. Working closely with the Directing Board, he takes the initiative in advising you continuously as to the position of your holdings. *It is never necessary for you to consult us.*

When changes are recommended, precise instructions as to why to sell or buy are given, together with counsel as to the prices at which to act. Alert counsel by first class mail or air mail and by telegraph relieves you of any doubt concerning your investments.

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Throughout the year we keep a complete record of each transaction as you follow our advice. At the end of your annual enrollment you receive our audit of the progress of your account showing just how it has grown in value and the amounts of income it has produced for you.

Full information on Investment Management Service is yours for the asking. Our rates are based on the present value of securities and cash to be supervised—so if you will let us know the present worth of your account—or send us a list of your holdings for evaluation—we shall be glad to quote an exact annual fee . . . and to answer any questions as to how our counsel can benefit you.

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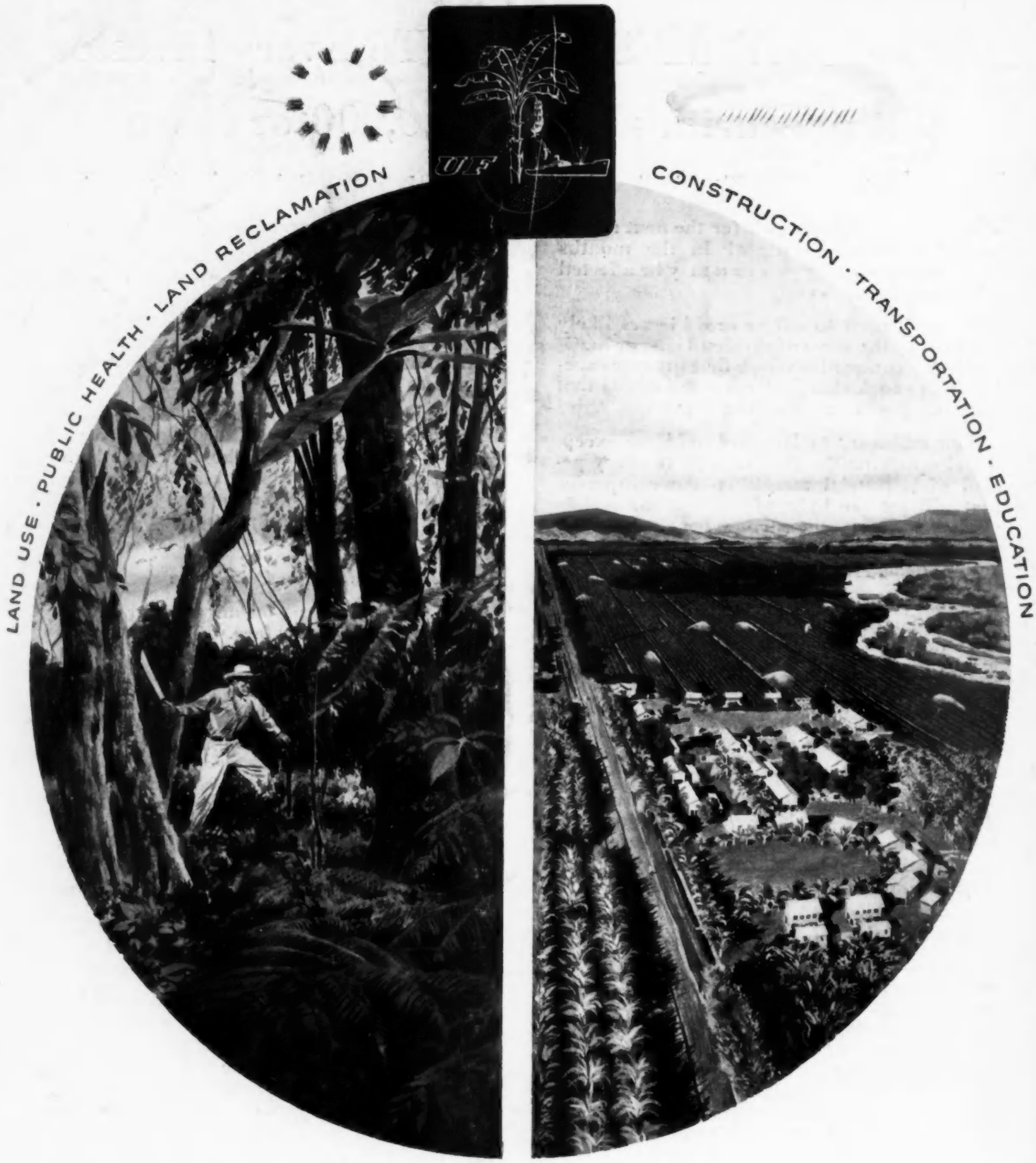
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